

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, 1995

☐ 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  
(State or other jurisdiction of  
incorporation or organization)

76-0345915  
(I.R.S. Employer  
Identification No.)

2929 Allen Parkway, Suite 2500  
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  
on which registered

Name of each exchange

COMMON STOCK

AMERICAN 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. ☐

Approximate aggregate market value of common stock held by non-affiliates of the  
registrant: \$47,439,839, computed on the basis of \$15.375 per share, closing  
price of the common stock on the American Stock Exchange, Inc. on February 23,  
1996. For purposes of calculating this amount only, all Directors and executive  
officers of the registrant have been treated as affiliates. There were 3,138,575  
shares of the registrant's common stock, \$.001 par value, outstanding as of  
February 23, 1996. The net asset value of a share at December 31, 1995 was  
\$19.71.

Documents incorporated by reference: Proxy Statement for 1996 Annual Meeting of  
Stockholders is incorporated by reference in Part III.

Part III, Item II  
Index to Exhibits on Page 51

TABLE OF CONTENTS

## PART I

Item 1.	Business .....	1
Item 2.	Properties .....	15
Item 3.	Legal Proceedings .....	16
Item 4.	Submission of Matters to a Vote of Security Holders.....	16

## PART II

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters.....	16
Item 6.	Selected Financial Data.....	18
	Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	19
Item 8.	Financial Statements and Supplementary Data.....	25
	Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	48

## PART III

Item 10.	Directors and Executive Officers of the Registrant.....	48
Item 11.	Executive Compensation.....	48
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....	48
Item 13.	Certain Relationships and Related Transactions.....	48

## PART IV

Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	48
----------	--	----

## ii

## ITEM 1. BUSINESS.

Equus II Incorporated (the "Fund") is a Delaware corporation and the successor to Equus Investments II, L.P. (the "Partnership" or "Predecessor Entity") pursuant to a reorganization in which all assets and liabilities of the Partnership were transferred to the Fund on July 1, 1992, in exchange for shares of common stock of the Fund (the "Exchange"). References to the Fund are intended to include the Partnership where the context requires. The Fund seeks to achieve capital appreciation principally by making investments in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies ("Portfolio Companies"). The Fund seeks to invest primarily in companies which intend to acquire other businesses, including leveraged buyouts. 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. Current income is not a significant factor in the selection of investments. The Fund has elected to be treated as a business development company under the Investment Company Act of 1940 (the "Investment Company Act").

On June 30, 1993, Equus Investments Incorporated ("EQI"), a Delaware corporation and business development company was merged with and into the Fund. Pursuant to the Agreement and Plan of Merger dated March 26, 1993, as amended, (the "Merger"), all outstanding shares of EQI were converted into 0.54 of a share of the Fund's common stock. The Fund issued 1,147,137 shares of common stock, net of 130 shares redeemed in lieu of fractional shares, in connection with the Merger. The Merger of EQI into the Fund was recorded as a "pooling of interests" for financial statement reporting purposes. Accordingly, the financial statements of the Fund were restated to include operating results of EQI for the year ended December 31, 1993, along with the selected per share data and ratios for the three years ended December 31, 1993.

The Fund has eight directors. Five of such directors are disinterested individuals (the "Independent Directors") as defined by the Investment Company Act. The directors are responsible for providing overall guidance and supervision of the Fund, approving the Fund's investments and performing various duties imposed on directors of a business development company by the Investment Company Act. Among other things, the Independent Directors supervise the management arrangements for the Fund, the custody arrangements with respect to portfolio securities, the selection of independent accountants, fidelity bonding and any transactions with affiliates.

The Fund has 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 the Fund's investments. The Management Company also manages the Fund's 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.

Equus Capital Corporation, a Delaware corporation (the "Sub-Adviser"), is the subordinated investment adviser to the Fund and is responsible for preparing the Fund's quarterly net asset valuations and providing certain investment advice to the Fund.

-1-

The Management Company, the Sub-Adviser, their officers and directors and the officers of the Fund are collectively referred to herein as "Management". The Fund's principal office is located at 2929 Allen Parkway, Suite 2500, Houston, Texas 77019-2120, and the telephone number is (713) 529-0900.

#### BORROWING

The Fund may borrow funds to facilitate the making of new or follow-on investments, to maintain its pass-through tax status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986 (the "Code") or to pay contingencies and expenses. The Fund is permitted under the Investment Company Act to borrow funds if, immediately after the borrowing, it will have an asset coverage (as defined in the Investment Company Act) of at least 200%. That is, the Fund may borrow funds in an amount up to 50% of the value of its assets, including investments made with borrowed funds. The amount and nature of any Fund borrowings will depend upon a number of factors over which neither the directors, the Management Company nor the Sub-Adviser has 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 the Fund's net asset value.

#### LOSS OF CONDUIT TAX TREATMENT

It is intended that the Fund will continue to qualify for pass-through tax treatment as a regulated investment company under Subchapter M of the Code, as it has in 1995 and prior years. A regulated investment company maintains essentially the same pass-through tax benefits as a partnership. The Fund may cease to qualify for conduit tax treatment if it is unable to comply with the diversification requirements contained in Subchapter M of the Code. Subchapter M requires that at the end of each quarter (i) at least 50% of the value of the Fund's 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 the Fund's total assets and 10% of the outstanding voting securities of such issuer, and (ii) no more than 25% of the value of the Fund's 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 the Fund and are engaged in the same, similar or related trades or businesses. The Fund will borrow funds if necessary to make qualifying investments to satisfy the foregoing diversification requirements. If the Fund fails to satisfy such diversification requirements and ceases to qualify for conduit tax treatment, the Fund will be subject to income tax on its income and gains and stockholders will be subject to income tax on distributions.

Failure by the Fund to distribute a sufficient portion of its net investment income and net realized capital gains could result in a loss of pass-through tax status or subject the Fund to a 4% excise tax. Under the Investment Company Act, the Fund will not be permitted to make distributions to stockholders unless it meets certain asset coverage requirements. See "Regulation."

#### INVESTMENT PRACTICES

Substantially all of the net assets of the Fund are invested or committed to be invested in securities of Portfolio Companies. Substantially all amounts not invested in securities of Portfolio Companies are invested in short-term, highly liquid investments consisting of interest-bearing bank accounts, certificates of deposit or securities issued or guaranteed as to interest and principal by the United States or by a person or entity controlled or supervised by and acting as an instrumentality of the government of the United States that have maturities of less than one year from the date of investment or other short-term, highly liquid investments providing, in the opinion of the Management Company, appropriate safety of principal.

-2-

The Fund's investments in portfolio securities are usually structured in private transactions negotiated directly with the owner or issuer of the securities acquired. Such securities consist principally of common stock and securities convertible into common stock, but may also consist of a combination of debt and equity securities, warrants, options and other rights to acquire such securities or partnership interests.

The Fund is concentrating its investment efforts on companies of a type and size that, in management's view, provide opportunities for significant capital appreciation, relative ease of acquisition and disposition, reduced competition for investments and prudent diversification of risk.

The enterprise value of a Portfolio Company typically ranges from \$15,000,000 to \$75,000,000, at the time of the Fund's initial investment. The Fund's initial investment in a Portfolio Company typically ranges from \$2,000,000 to \$7,000,000, depending on the investment. The balance of the purchase price of a Portfolio Company is supplied by debt financing and other equity investors, if necessary.

The Fund is attempting to reduce certain of the risks inherent in

private equity-oriented investments by investing in a portfolio of companies involved in different industries. The Fund has limited its 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. However, if a follow-on investment is available or required, as discussed below, the Fund's investment in a particular Portfolio Company may exceed these initial investment limitations. Also, investments in certain Portfolio Companies may be in excess of the Fund's initial investment limitations due to increases in the value of such investments.

The Fund may make investments as a sole investor, with other professional investors or with other persons. The Fund ordinarily will not be 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, if any, in Portfolio Companies will typically involve a substantial, and may constitute a controlling, interest in such companies.

#### 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

-3-

4. The willingness of the company to permit the Fund and its co-investors, if any, to take a substantial position in the company and have representation on its board of directors, so as to enable the Fund to influence the selection of management and basic policies of the company.

#### CO-INVESTMENTS

The Fund has coinvested in certain Portfolio Companies with Equus Capital Partners, L.P., a Delaware limited partnership and an affiliate of the Fund ("ECP"). The Fund and Management obtained an order from the Securities and Exchange Commission (the "SEC") exempting the Fund from certain prohibitions contained in the Investment Company Act relating to coinvestments by the Fund and ECP. Under the terms of the order, Portfolio Securities purchased by the Fund and ECP were required to meet certain guidelines or be approved in advance by the Independent Directors and were required to satisfy certain conditions established by the SEC.

#### INVESTMENT OPERATIONS

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

**IDENTIFYING INVESTMENTS.** Investment opportunities are identified for the Fund by the Management Company, the Sub-Adviser and their respective officers and directors. Investment proposals may, however, come to the Fund from many other sources, and 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 Sub-Adviser and 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 (including representation on its board of directors). The Management Company seeks to structure the terms of the investment so as 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 the Fund 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. When necessary, the Management Company,

-4-

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

##### A. C. LIQUIDATING CORPORATION

A. C. Liquidating Corporation ("ACL"), Houston, Texas, has disposed of its operating businesses and currently holds two parcels of real estate and a note receivable. ACL is offering the real estate for sale and intends to distribute the net proceeds of such sale, collections on the note receivable and its remaining cash to its shareholders as soon as possible. At December 31, 1995, the Fund's investment in ACL consisted of \$188,014 in 10% secured promissory notes and \$488,500 in 10% Series C cumulative preferred stock, and the investment was valued at \$188,014. Stock held by the Fund represents a 49% fully-diluted equity interest in ACL. Mr. Lehmann, President of the Fund, serves as a director of ACL.

##### ALLIED WASTE INDUSTRIES, INC. (NASDAQ: AWIN)

Allied Waste Industries, Inc. ("Allied"), Scottsdale, Arizona, is involved in the acquisition and management of solid waste disposal operations. The Company owns or operates 33 collection companies, 21 transfer stations, 18 landfills and 8 recycling facilities located in ten states. The December 31, 1995 closing price of Allied's common stock on the NASDAQ National Market was \$7.125 per share. At December 31, 1995, the Fund's investment in Allied, valued at \$8,768,825 with a cost of \$5,316,834, consisted of 1,397,698 shares of restricted common stock valued at an average of \$6.27 per share, and warrants to buy up to 303,044 shares of common stock at prices ranging from \$4.60 to \$13.50 per share. The valuation discount, due to restrictions on the Fund's ability to sell the common stock and warrants, results in an aggregate reduction in value recorded by the Fund from the market price on December 31, 1995, of \$1,867,084. The Fund's investment in Allied represents an approximate 3% fully-diluted equity interest in Allied. Mr. Lehmann serves on Allied's Board of Directors.

##### AMERICAN RESIDENTIAL SERVICES, INC.

American Residential Services, Inc. ("ARS"), Houston, Texas, was created to acquire existing businesses which provide plumbing, heating and air conditioning and electrical services to the residential community. Through December 31, 1995, the Fund had advanced \$50,000 to ARS as partial funding pursuant to a \$200,000 prime rate promissory note. Subsequent to December 31, 1995, the Fund committed to invest up to an additional \$1,400,000 in ARS, subject to certain conditions.

##### BSI HOLDINGS, INC., FORMERLY BRAZOS SPORTSWEAR, INC., AND RELATED ENTITIES

BSI Holdings, Inc. ("BSI"), Cincinnati, Ohio, is a licensed sportswear company with operating facilities in nine states. BSI sells to over 15,000 customers, including Wal-Mart, Target and JC Penney, under seven different trademarks or labels. At December 31, 1995, the Fund's investment in BSI, valued at \$6,028,500 with a cost of \$4,858,500, consisted of 166,250 shares of common stock, \$3,350,000 in a 12% senior subordinated debenture, \$178,500 in a 10% subordinated promissory note and warrants to buy up to 64,715 shares of common stock for \$0.01 per share. In addition, the Fund has committed to invest up to an additional \$5,000,000 in BSI, under certain circumstances. The Fund's investment in BSI represents an approximate 58% fully-diluted equity interest. Mr. Lehmann and Mr. Hale, a Vice President of the Fund, serve as directors of BSI.

-5-

GCS RE, Inc. ("GCS"), Houston, Texas, was formed to be a general partner of a real estate partnership, which owns a warehouse that is leased to BSI. At December 31, 1995, the Fund's investment in GCS consisted of 1,000 shares of common stock that was valued at \$132,910, its original cost. The Fund owns 100% of the stock of GCS, and GCS owns 50% of the real estate partnership. In addition, the Fund has committed to invest up to an additional \$565,500 in GCS, under certain circumstances. Mr. Douglass, Chairman and CEO of the Fund, and Mr. Lehmann serve on the Board of Directors of GCS.

Sports/Leisure, Inc. ("SLI"), Boca Raton, Florida, is a distributor of leisure sporting wear. At December 31, 1995, the Fund's investment in SLI, which was received in exchange for preferred stock of BSI, was valued at \$5,881 with a cost of \$87,739 and consisted of 87,632 shares of common stock and \$5,005 outstanding under an 8% unsecured promissory note. The Fund's investment in SLI represents less than a 1% fully-diluted equity interest.

##### CARDIOVASCULAR VENTURES, INC.

Cardiovascular Ventures, Inc. ("CVI"), New Orleans, Louisiana, develops and operates freestanding clinics for cardiac catheterization procedures. CVI currently operates six clinics in Florida, Maryland and Texas. At December 31,

1995, the Fund's investment in CVI consisted of 150,000, 214,286 and 56,717 shares of Series A, Series B and Series C convertible preferred stock, respectively, valued at \$1,373,138, its original cost. The Fund's investment represents an approximate 9% fully-diluted equity interest in CVI.

#### CARRUTH-DOGGETT INDUSTRIES, INC.

Carruth-Doggett Industries, Inc. ("CDI"), Houston, Texas, operates five Case Equipment dealerships in the Houston area, which are involved in the sale or rental of new and used equipment, parts and services. Case is the second largest manufacturer of farm equipment in North America and the largest manufacturer of light and medium-sized equipment in the world. At December 31, 1995, the Fund's investment in CDI, valued at its original cost of \$2,250,000, consisted of a \$2,250,000, 10% senior subordinated promissory note, a warrant to buy up to 33,333 shares of CDI for \$.01 per share and a warrant to buy up to 333 shares of CDE Corp for \$.01 per share. The Fund's investment in CDI represents a 25% fully-diluted equity interest. Mr. Forbes, a Vice President of the Fund, serves on CDI's Board of Directors.

#### CHAMPION HEALTHCARE CORPORATION (AMEX: CHC)

Champion Healthcare Corporation ("CHC"), Houston, Texas, was organized to acquire acute care hospitals in suburban markets, with primary emphasis given to hospitals that have significant opportunity for improving market share and cash flow. In December 1994, CHC merged into AmeriHealth Corporation, which was renamed Champion Healthcare Corporation. Champion currently operates nine hospitals in seven states. The December 31, 1995 closing price of CHC's common stock on the American Stock Exchange was \$5.3125 per share. At December 31, 1995, the Fund's investment in CHC, valued at \$7,357,347 with a cost of \$6,436,207, consisted of 1,038,944 shares of restricted common stock, 3,601 and 83,333 shares of Series C and D convertible preferred stock, respectively, a \$1,500,000, 11% senior subordinated note and warrants to buy 50,246 shares of common stock from \$5.90 to \$9.00 per share. The Series C and D preferred stock are convertible into 7,202 and 166,666 shares of common stock, respectively. The common stock of CHC was valued by the Fund at an average of \$4.13 per share at December 31, 1995, due to restrictions on the Fund's ability to sell such stock, which resulted in an aggregate reduction in value from the market price on such date of \$1,226,855. The Fund's investment in CHC represents an approximate 6% fully-diluted equity interest in CHC. Mr.

-6-

Lehmann serves on CHC's Board of Directors.

#### DAVID'S SUPERMARKETS, INC.

David's Supermarkets, Inc. ("David's"), Grandview, Texas, operates a chain of twenty-one grocery stores located in small towns in North Central Texas. At December 31, 1995, the Fund's investment in David's, valued at \$3,334,450, with a cost of \$4,069,450, consisted of 735,000 shares of common stock, 333,445 shares of 3.5% junior preferred stock and warrants to buy up to 538,462 shares of common stock for \$1 per share. The Fund's investment in David's represents a 14% fully-diluted equity interest. Mr. Douglass and Mr. Forbes serve on David's Board of Directors.

#### DRYPERS CORPORATION (NASDAQ: DYPR)

Drypers Corporation ("Drypers"), Houston, Texas, manufactures and distributes disposable diapers and baby wipes sold under the trade name Drypers. Drypers is believed to be the third leading branded diaper manufacturer in the United States, and has manufacturing facilities in Marion, Ohio; Vancouver, Washington; Buenos Aires, Argentina and Puerto Rico. The December 31, 1995 closing price of Drypers' common stock on the NASDAQ National Market was \$3.125 per share. At December 31, 1995, the Fund's investment in Drypers, valued at \$2,838,162 with a cost of \$6,400,132, consisted of 1,096,892 shares of restricted common stock and warrants to buy 6,634 shares of common stock for \$4 per share. The stock was valued at an average of \$2.59 per share of common stock due to restrictions on the Fund's ability to sell such stock, which resulted in an aggregate reduction in value from the market price on such date of \$589,626. The Fund's investment in Drypers represents an approximate 14% fully-diluted equity interest in Drypers. Mr. Lehmann serves as a director of Drypers. The Fund has committed to make a follow-on investment of up to \$2,500,000 in Drypers in 1996, subject to certain conditions.

#### GARDEN RIDGE CORPORATION (NASDAQ: GRDG)

Garden Ridge Corporation ("GRDG"), Houston, Texas, is a specialty retailer of crafts and home decorative items. GRDG operates eleven megastores in Kentucky, Oklahoma, Tennessee and Texas and is continuing its expansion into other areas of the United States. GRDG completed a public offering of its common stock in May 1995. The December 31, 1995 closing price of GRDG on the NASDAQ National Market was \$38.75 per share. At December 31, 1995, the Fund's investment in GRDG, valued at \$10,963,284 with a cost of \$1,061,018, consisted of 333,471 shares of common stock. The stock was valued at an average of \$32.875 per share due to restrictions on the Fund's ability to sell such stock, which resulted in an aggregate reduction in value from the market price on such date of \$1,958,717. The Fund's investment in GRDG represents an approximate 4% fully-diluted equity interest in GRDG. Mr. Lehmann serves on GRDG's Board of Directors.

#### INDUSTRIAL EQUIPMENT RENTALS, INC.

Industrial Equipment Rentals, Inc. ("IER"), Houma, Louisiana, rents

industrial equipment from locations in Texas, Louisiana, Alabama and Mississippi, primarily to refineries, petrochemical plants and oil and gas operations. At December 31, 1995, the Fund's investment in IER, valued at its original cost of \$2,366,700, consisted of 182,230 shares of common stock, 5,371 shares of junior preferred stock, 67,500 shares of Series B senior convertible preferred stock, \$1,077,778 in a 12% subordinated debenture and a \$499,950, 9% senior subordinated debenture. The Fund's investment in IER represents a 18% fully-diluted equity interest. Mr. Lehmann and Mr. Hale serve on IER's Board of Directors.

-7-

#### MIDWAY AIRLINES CORPORATION

Midway Airlines Corporation ("Midway"), Chicago, Illinois, is a commercial airline which began service out of Midway Airport in Chicago in the fall of 1993. Midway now serves markets on the east coast of the U. S. from its home base at the Raleigh-Durham Airport. At December 31, 1995, the Fund's investment in Midway, valued at \$771,000 with a cost of \$4,214,226, consisted of 452,392 shares of Class C common stock, 274,761 shares of junior preferred stock, \$271,000 in a 12% subordinated note and warrants to buy up to 203,250 shares of Class C common stock for \$.01 per share. The Fund's investment in Midway represents an approximate 4.5% fully-diluted equity interest in Midway.

#### NCI BUILDING SYSTEMS, INC. (NASDAQ: BLDG)

NCI Building Systems, Inc. ("NCI"), Houston, Texas, manufactures and distributes pre-engineered metal buildings and components. NCI operates facilities in Alabama, Indiana, Mississippi, New Mexico, Tennessee and Texas. The December 31, 1995 closing price of NCI's common stock on the NASDAQ National Market was \$24.75 per share. At December 31, 1995, the Fund's investment in NCI consisted of 100,000 shares of common stock valued at \$2,475,000 with a cost of \$159,783, which represents a 1.6% fully-diluted equity interest in NCI. Mr. Forbes serves as a director of NCI.

#### RESTAURANT DEVELOPMENT GROUP, INC.

Restaurant Development Group, Inc. ("RDG"), Houston, Texas, was the South Florida franchisee of Rally's Inc., a drive-through restaurant chain. RDG sold its restaurants to Checkers Drive-in Restaurants, Inc. in 1994 for 676,751 shares of common stock of Checkers (NASDAQ: CHKR) and a note receivable in the amount of \$1,693,225. RDG intends to distribute to its shareholders any proceeds from collections on the note receivable and the sale of Checkers stock. At December 31, 1995, the Fund's investment in RDG, valued at \$1,689,122 with a cost of \$3,805,278, consisted of 610,909 shares of Class A common stock, a \$639,122 prime +2% promissory note, a \$350,000, 14% promissory note and warrants to buy up to 212,500 shares of common stock for \$2.80 to \$3.00 per share. The Fund's investment in RDG represents a 42% fully-diluted equity interest. Mr. Douglass and Mr. Lehmann serve on RDG's Board of Directors.

#### STRATEGIC HOLDINGS, INC. AND RELATED ENTITY

Strategic Holdings, Inc. ("SHI"), Houston, Texas, was formed to acquire Strategic Materials, Inc., formerly known as Allwaste Recycling, Inc., the glass recycling division of Allwaste, Inc. SHI receives and processes used glass, which is then sold to the container, fiberglass and bead industries as a raw material source. At December 31, 1995, the Fund's investment in SHI was valued at \$6,692,308, its original cost. The Fund's investment in SHI consisted of 2,986,408 shares of common stock and 3,705,900 shares of Series B preferred stock. Mr. Lehmann and Mr. Hale serve as directors of SHI.

SMIP, Inc. ("SMIP"), Houston, Texas, was formed to be the general partner of a limited partnership which owns an 18% fully-diluted interest in SHI. Management personnel of Strategic Materials, Inc. are the limited partners of the partnership. At December 31, 1995, the Fund's investment in SMIP was valued at \$325,000, its original cost. The Fund's investment in SMIP consists of 1,000 shares of common stock and a \$175,000, 15% promissory note. SMIP is wholly-owned by the Fund. Mr. Lehmann and Mr. Hale serve as directors of SMIP.

The Fund's investment in SHI and SMIP represents an approximate 50% fully-diluted equity interest in SHI.

-8-

#### SUMMIT/DPC PARTNERS, L. P.

Summit/DPC Partners, L. P. ("DPC"), Houston, Texas, was formed to invest in DPC Acquisition Corp, which was created to acquire Doane Products Company, which is believed to be the largest manufacturer of private label dry pet food in the United States. At December 31, 1995, the Fund's investment in Summit/DPC was valued at \$2,600,000, its original cost. The Fund's investment consists of an approximate 36% limited partnership interest in DPC, which in turn owns an approximate 17% fully-diluted interest in DPC Acquisition Corp.

#### TECH-SYM CORPORATION (NYSE:TSY)

CogniSeis Development, Inc. ("CogniSeis"), Houston, Texas, develops and markets specialized computer systems consisting of geophysical application software and appropriately configured computer equipment. On June 30, 1995, CogniSeis was merged into Tech-Sym Corporation ("TSY"), a corporation engaged in the design and manufacture of various products for the defense and electronics industries. The Fund received 62,759 shares of TSY common stock in a tax-free exchange for its CogniSeis common stock. The Fund sold 30,000 shares of TSY during November 1995, and the remaining 32,759 shares in January 1996. The closing market price of TSY on December 31, 1995, on the New York Stock Exchange

was \$31.625. At December 31, 1995, the Fund's investment in TSY, valued at \$1,036,003 with a cost of \$118,245, consisted of 32,759 shares of common stock, which represents a fully-diluted equity interest in TSY of less than 1%.

#### TRAVIS INTERNATIONAL, INC.

Travis International, Inc. ("Travis"), Houston, Texas, distributes specialty products for industrial and commercial use, including o-rings, gaskets and sealants, builders' hardware and various other products used in the construction industry. At December 31, 1995, the Fund's investment in Travis, valued at \$3,853,890 with a cost of \$560,290, consisted of 171,284 shares of common stock, which represents an approximate 15% fully-diluted equity interest in Travis. Mr. Lehmann serves as a director of Travis.

#### VIDEO RENTAL OF PENNSYLVANIA, INC. AND RELATED ENTITY

Video Rental of Pennsylvania, Inc. ("VRP"), Houston, Texas, is the general partner of a limited partnership that has franchise rights to operate BLOCKBUSTER(R) Entertainment Corporation video cassette stores in the Pittsburgh, Pennsylvania area. At December 31, 1995, the Fund's investment in VRP, valued at \$3,150,000 with a cost of \$2,775,000, consisted of 125,000 shares of common stock, 125,000 shares of 9% redeemable preferred stock and a \$2,525,000, 10% secured promissory note. The Fund's investment in VRP represents a 50% fully-diluted equity interest. Messrs. Douglass, Lehmann, Tucker, a Vice President of the Fund, and Dr. Williams, a director of the Fund, serve as directors of VRP.

Equus Video Corporation ("Video"), Houston, Texas, was formed by the Fund to own a 50% limited partnership interest in a partnership whose sole general partner is a corporation owned by VRP. The limited partnership is developing additional BLOCKBUSTER(R) Entertainment Corporation video cassette stores in and around Pittsburgh. At December 31, 1995, the Fund's investment in 10,000 shares of common stock of Video was valued at \$25,000, its original cost. Mr. Douglass and Mr. Lehmann serve as directors of Video.

-9-

#### WILLIAMS & METTLE CO.

Williams & Mettles Co. ("W&M"), Houston, Texas, manufactures and distributes wire cloth products and products used in industrial filtering and screening applications in oil and gas production and in water pollution monitoring wells. At December 31, 1995, the Fund's investment in W&M, valued at \$1,585,826 with a cost of \$2,146,305, consisted of 657,895 shares of common stock, 138,475 shares of Series A convertible preferred stock, 237,126 shares of Series B convertible preferred stock, a \$677,250, 12% subordinated promissory note, a \$512,576 junior participation in a prime +1.75% note and a warrant to buy 456,718 shares of common stock for \$0.01 per share. The fund's investment in W&M represents an approximate 55% fully-diluted equity interest. Mr. Forbes serves on the Board of Directors of W&M.

#### YELLOW CAB SERVICE CORPORATION

Yellow Cab Service Corporation, ("Yellow Cab"), Houston, Texas, is engaged in taxi and transportation services in Houston and Austin, Texas and Colorado Springs, Colorado, primarily through independent driver-owners. At December 31, 1995, the Fund's investment in Yellow Cab, valued at \$1,750,000 with a cost of \$5,134,515, consisted of 1,006,701 shares of common stock and two 3% subordinated notes with principal balances totaling \$5,172,097. The Fund's investment in Yellow Cab represents an approximate 5% fully-diluted equity interest in Yellow Cab.

#### TEMPORARY INVESTMENTS

Pending investment in Portfolio Companies, the Fund invests its 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.

#### FOLLOW-ON INVESTMENTS

Following its initial investment in a Portfolio Company, the Fund 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 the Fund or otherwise to increase the Fund's position in a successful or promising Portfolio Company. The Fund may also be called upon to provide additional equity or loans needed by a Portfolio Company to implement fully its business plans, to develop a new line of business or to recover from unexpected business problems. The Fund 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.

#### DISPOSITION OF INVESTMENTS



The method and timing of the disposition of the Fund's portfolio investments is critical to the realization of capital appreciation. The Fund expects to dispose of its portfolio securities through a

-10-

variety of transactions, including sales of Portfolio Companies to third parties, sales of portfolio securities in underwritten public offerings, public sales of such securities pursuant to exemptions from registration requirements and negotiated private sales of such securities to the Portfolio Company itself or to other investors. In addition, the Fund may distribute its portfolio securities in-kind to the shareholders. In structuring investments, the Fund endeavors 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 the Fund's investment and, if appropriate, seeks to obtain registration rights at the expense of the Portfolio Company. The Fund bears 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 the Fund's 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 and incentive compensation 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 the Fund by the Board of Directors of the Fund; 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 shareholders; American Stock Exchange fees; custodian fees; litigation costs; costs of disposing of investments including brokerage fees and commissions; and other extraordinary or nonrecurring expenses and other expenses properly payable by the Fund.

#### VALUATION

On a quarterly basis, the Sub-Adviser performs a valuation of the investments in portfolio securities of the Fund, subject to the approval of the Board of Directors of the Fund. Valuations of portfolio securities are done in accordance with generally accepted accounting principles and the financial reporting policies of the SEC. The applicable methods prescribed by such principles and policies are described below.

The fair value of investments for which no market exists (including most investments made by the Fund) 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 being valued by the directors would be the amount the Fund might reasonably expect to receive for it upon its current sale. 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 the Portfolio Company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies and an assessment of the company's future financial prospects. In the case of unsuccessful operations, the appraisal may be based upon liquidation value. Appraisal valuations are necessarily subjective.

-11-

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. Securities with legal, contractual or practical restrictions on transfer may be valued at a discount from their value determined by the foregoing method to reflect such restrictions.

Fund investments for which market quotations are readily available and which are freely transferable will be valued as follows: (i) securities traded on a securities exchange or the NASDAQ National Market are valued at the closing price on the date of valuation and (ii) securities traded in the over-the-counter market are valued at the average of the closing bid and asked prices 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), valuation is set by discounting the closing sales or bid price to reflect 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 purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

The Directors review the valuation policies on a quarterly basis to

determine their appropriateness and may also hire independent firms to review the Sub-Adviser's methodology of valuation or to conduct an independent valuation.

On a weekly 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. Such weekly net asset values appear in various publications, including BARRON'S and THE WALL STREET JOURNAL.

#### COMPETITION FOR INVESTMENTS

The Fund encounters competition from other persons and entities with similar investment objectives. These competitors include other leveraged buyout 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, and may include Management or its affiliates. Many of these competitors may have substantially more experience, greater financial resources and more personnel than the Fund.

#### CUSTODIAN

The Fund acts as the custodian of its securities to the extent permitted under the Investment Company Act and is subject to the restrictions imposed on self-custodians by the Investment Company Act and the rules and regulations thereunder. The Fund has entered into an agreement with Southwest Guaranty Trust Company, Houston, Texas, with respect to the safekeeping of such securities. The principal business office of such trust company is 2121 Sage Road, Suite 150, Houston, Texas 77056.

#### TRANSFER AND DISBURSING AGENT

The Fund employs First Interstate Bank of Texas, N. A. ("First Interstate") as its transfer agent to record transfers of the shares, maintain proxy records and to process distributions. The principal business office of First Interstate is 1000 Louisiana Street, Suite 700, Houston, Texas 77002.

-12-

#### RISK FACTORS

An investment in shares of the Fund involves a number of risks due to the nature of the Fund's investment portfolio. Leveraged buyout and private equity investments involve a high degree of business and financial risk and can result in substantial losses. In the event that a Portfolio Company cannot generate adequate cash flow to meet its debt service, the Fund's equity investment could be reduced or eliminated through foreclosure on the Portfolio Company's assets or the Portfolio Company's reorganization or bankruptcy. The portfolio securities acquired by the Fund generally require four to seven years to reach maturity and generally are illiquid. This lack of liquidity may preclude or delay any disposition of such securities, or reduce proceeds that might otherwise be realized from any such dispositions. After its initial investment in a Portfolio Company, the Fund may be called upon from time to time to provide additional funds to such company. There can be no assurance that the Fund will have sufficient funds, or be willing to make such investments. The Fund's inability or unwillingness to make a follow-on investment could adversely affect an investment in a portfolio security. The Fund is a "non-diversified" company as defined in the Investment Company Act. The Fund is not limited in the proportion of its assets that may be invested in securities of a single issuer, and, accordingly, an investment in the Fund may, under certain circumstances, present greater risk to an investor than an investment in a diversified company. Also see "Borrowing" and "Loss of Conduit Tax Treatment".

Shares of closed-end funds 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 the 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. The Fund's shares have traded at a discount to net asset value since inception. See "Market for Registrant's Common Equity and Related Stockholder Matters".

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. 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. Cost is used to approximate fair value of other investments until significant developments affecting an investment provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Sub-Adviser, subject to the approval of the Board of Directors. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, the Sub-Adviser's estimate of fair value may significantly differ from the fair value that would have been used had a ready market existed for the securities.

#### REGULATION

The Investment Advisers Act generally prohibits investment advisers from entering into investment advisory contracts with an investment company that provide 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. The Investment Advisers Act, however, does permit the payment of compensation based on capital gains 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 in order to provide for incentive compensation to the Management Company and the Sub-Adviser based on the capital appreciation of the Fund's investments.

-13-

The Fund may not withdraw its election to be treated as a business development company without first obtaining the approval of a majority in interest of its shareholders. 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 (i) is organized under the laws of, and has its principal place of business in, any state or states, (ii) is not an investment company and (iii) (a) does not have a class of securities registered on an exchange or included in the Federal Reserve Board's over-the-counter margin list, (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 (i) 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 (ii) 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 of which the business development company is a member acting together which controls such company ("Managed Company"). A business development company may satisfy the requirements of clause (i) 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 the Fund 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 the Fund's total assets consists of qualifying assets. Qualifying Assets include (i) securities of companies that were eligible Portfolio Companies at the time that the Fund acquired their securities; (ii) securities of companies that are actively controlled by the Fund; (iii) securities of bankrupt or insolvent companies that are not otherwise eligible Portfolio Companies; (iv) securities acquired as follow-on investments in companies that were eligible Portfolio Companies at the time of the Fund's initial acquisition of their securities but are no longer eligible Portfolio Companies, provided that the Fund has maintained a substantial portion of its initial investment in such companies; (v) securities received in exchange for or distributed on or with respect to any of the foregoing; and (vi) 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. The Fund may not purchase any

-14-

security on margin, except such short-term credits as are necessary for the clearance of portfolio transactions, or engage in short sales of securities.

The Fund is 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 its 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 shareholders for the repurchase of any shares unless the asset coverage ratio is at least 200% at the time of the distribution or repurchase.

The Fund generally may sell its securities at a price that is below the prevailing net asset value per share only upon the approval of the policy by shareholders holding a majority of the shares issued by the Fund, including a majority of shares held by nonaffiliated shareholders. The Fund may in accordance with certain conditions established by the SEC sell shares below net

asset value in connection with the distribution of rights to all of its stockholders.

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

The Fund may repurchase its shares, subject to the restrictions of the Investment Company Act. On June 22, 1994, the Fund's Board of Directors approved a stock repurchase program pursuant to which the Fund repurchased and cancelled 46,200 shares of its stock for \$640,159 in 1994. Such stock was repurchased at an average discount of 28.74% from its net asset value. From March 1995 until August 1995, pursuant to authorization from the Board of Directors, the Fund repurchased and cancelled an additional 145,500 shares of its stock for \$1,993,642. The stock repurchased in 1995 was repurchased at an average discount of 33.61% from its net asset value.

Many of the transactions involving the Fund and its affiliates (as well as affiliates of such affiliates) require the prior approval of a majority of the Independent Directors and a majority of the Independent Directors having no financial interest in the transactions. However, certain transactions involving closely affiliated persons of the Fund, including its Sub-Adviser and 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.

#### ITEM 2. PROPERTIES.

The Fund does not have an interest in any physical properties.

-15-

#### ITEM 3. LEGAL PROCEEDINGS.

Certain of the Portfolio Companies are involved in asserted claims and have the possibility for unasserted claims which may ultimately affect the fair value of the Fund's portfolio investments. In the opinion of Management, the financial position or results of operations of the Fund will not be materially affected by these claims.

#### 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 1995.

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Fund's shares of common stock began trading on the American Stock Exchange on September 11, 1992, under the symbol "EQS". Prior to such date, there was no established public trading market for the Fund's common stock. The Fund had approximately 7,200 shareholders at February 16, 1996, 2,128 of which were registered holders. Registered holders do not include those shareholders whose stock has been issued in street name. The net asset value per share of the Fund's common stock at December 31, 1995, was \$19.71.

The following table reflects the high and low sales prices per share of the Fund's common stock on the American Stock Exchange for the two years ended December 31, 1995, by quarter.

Quarter ENDED	HIGH	LOW
3/31/94	\$18.250	\$14.750
6/30/94	15.500	13.250
9/30/94	14.625	13.250
12/31/94	13.875	12.625
3/31/95	13.125	12.250
6/30/95	14.750	12.250
9/30/95	16.000	13.875
12/31/95	15.875	13.000

Historically, net investment income and net realized gains from the sale of portfolio investments have been distributed at least annually, to the extent such amounts were not reserved for payment of contingencies or to make follow-on or new investments.

As a regulated investment company under Subchapter M of the Code, the Fund is required to distribute to its shareholders, in a timely manner, at least 90% of its taxable net investment income each year. If the Fund distributes in a

timely manner, 98% of its taxable net capital gains and 98% of its taxable net investment income each year (as well as any portion of the respective 2% balances not distributed in the previous year), it will not be subject to the 4% non-deductible Federal excise tax on certain undistributed income of regulated investment companies. Under the Investment Company Act, the Fund is not permitted to pay dividends to shareholders unless it meets certain asset coverage requirements.

The Fund declared dividends of \$5,814,990 (\$2.00 per share), \$763,268 (\$0.25 per share) and \$2,049,038 (\$0.68 per share) during 1995, 1994 and 1993, respectively. The Fund adopted a policy

-16-

effective in 1995, to make dividend distributions of at least \$0.50 per share on an annual basis. In the event that taxable income, including realized capital gains, exceeds \$0.50 per share in any year, additional dividends may be declared to distribute such excess. The 1994 dividend was paid in cash and represented a return of capital. The 1995 and 1993 dividends, which represented the Fund's net capital gains for tax purposes, were paid in additional shares of common stock or in cash by specific election of the shareholders in December 1995 and January 1994. The Fund paid \$2,753,180 and \$662,594 in cash and issued 231,080 and 85,981 additional shares of stock at \$13.25 and \$16.125 per share in December 1995 and January 1994, respectively, in connection with such dividends.

The Fund is investing in companies that it believes have a high potential for capital appreciation and the Fund intends to realize the majority of its profits upon the sale of its investments in Portfolio Companies. Consequently, most of the companies in which the Fund invests do not have established policies of paying annual dividends.

A portion of the investments made by the Fund in portfolio securities is comprised of interest-bearing subordinated debt securities or dividend-paying preferred stock. The Fund will continue to distribute taxable net investment income earned on these investments from time to time, to the extent not retained for follow-on investments, expenses and contingencies. If taxable net investment income is retained, the Fund will be subject to Federal income tax.

The Fund reserves 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 shareholders 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.

-17-

ITEM 6. SELECTED FINANCIAL DATA.

Following is a summary of selected financial data and per share data of the Fund and its predecessors for the five years ended December 31, 1995.

	1995	1994	1993	1992	1991
Total investment income	\$ 3,075,234	\$ 1,921,136	\$ 1,552,410	\$ 1,796,143	\$ 2,814,188
Net investment income (loss)	\$ (668,114)	\$ 518,473	\$ (2,812,912)	\$ (1,403,449)	\$ 1,091,375
	Realized gain (loss) on sales				
of portfolio securities, net	\$ 7,668,524	\$ (350,309)	\$ (2,457,906)	\$ 10,744,375	\$ (1,896,309)
	Increase (decrease) in unrealized appreciation				
of portfolio securities, net	\$ (1,280,549)	\$ (2,562,801)	\$ 11,178,304	\$ (6,033,639)	\$ 7,029,153
	Total increase (decrease) in				
net assets from operations	\$ 5,719,861	\$ (2,394,637)	\$ 5,907,486	\$ 3,307,287	\$ 6,224,219
Dividends	\$ 5,814,990	\$ 763,268	\$ 2,049,038	\$ 3,228,253	\$ -
Total assets at end of year	\$ 132,450,176	\$ 109,941,211	\$ 114,411,374	\$ 105,613,771	\$ 85,705,097
Net assets at end of year	\$ 61,853,289	\$ 60,880,364	\$ 64,679,325	\$ 59,435,596	\$ 57,750,397
	Net cash provided (used)				
by operating activities	\$ (672,150)	\$ (185,849)	\$ (1,962,354)	\$ (324,954)	\$ 175,955
	Shares outstanding at end				
of year	3,138,575	3,053,017	3,099,272	3,013,291	2,879,654
	Average shares outstanding				
during year	2,968,001	3,083,581	3,013,291	2,879,654	2,879,654

PER SHARE DATA:

	1995	1994	1993	1992	1991
	Net investment				
income (loss)	\$ (0.22)	\$ 0.17	\$ (0.93)	\$ (0.49)	\$ 0.38
	Realized gain (loss) on sales of portfolio				
securities, net	\$ 2.58	\$ (0.12)	\$ (0.82)	\$ 3.73	\$ (0.66)
	Increase (decrease) in unrealized appreciation of portfolio				
securities, net	\$ (0.43)	\$ (0.83)	\$ 3.71	\$ (2.10)	\$ 2.44
Dividends	\$ 2.00	\$ 0.25	\$ 0.68	\$ 1.12	\$ -
	Net asset value (including unrealized appreciation),				
end of year	\$ 19.71	\$ 19.94	\$ 20.87	\$ 19.72	\$ 20.05

-18-

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

Equus II Incorporated (the "Fund"), a Delaware corporation and business development company, was formed as a successor to Equus Investments II, L.P. (the "Partnership" or "Predecessor Entity") pursuant to a reorganization in which all of the assets and liabilities of the Partnership were transferred to the Fund on July 1, 1992, in exchange for 1,866,132 shares of common stock of the Fund (the "Exchange"). Such shares were then distributed on a pro rata basis to the partners of the Partnership, effectively liquidating the Partnership. Each Limited Partner received one share of common stock of the Fund for each unit of partnership interest owned. The Fund has qualified for pass-through tax treatment as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986. On September 11, 1992, the Fund's shares of common stock were listed for trading on the American Stock Exchange, under the symbol "EQS".

On March 26, 1993, the Fund and Equus Investments Incorporated ("EQI") entered into an Agreement and Plan of Merger, as amended, which called for the merger of EQI with and into the Fund (the "Merger"). Pursuant to this agreement, on June 30, 1993, the Fund issued 1,147,137 additional shares of common stock, net of 130 shares redeemed in lieu of fractional shares, to the stockholders of EQI in a tax free exchange to acquire all of the outstanding common stock of EQI. Each share of EQI was converted into 0.54 of a share of the Fund's common stock.

At December 31, 1995, the Fund had \$71,610,360 of its assets invested in portfolio securities of 21 companies, and has committed to invest up to an additional \$9,615,500 in four of such companies and \$8,600,000 in two new companies under certain conditions. Current temporary cash investments, anticipated future investment income, proceeds from borrowings, proceeds from the sale of existing portfolio securities and proceeds from a proposed rights offering of additional common stock are believed to be sufficient to finance these commitments. At December 31, 1995, the Fund had \$5,750,000 outstanding on a \$13,000,000 revolving line of credit loan from a bank. Subsequent to December 31, 1995, the Fund received a commitment for a new \$20,000,000 revolving line of credit with another bank which will replace the prior revolving line of credit.

The Fund intends to issue transferable subscription rights to existing shareholders during the second quarter of 1996. Under the rights offering, the Fund would effectively issue each existing shareholder a right to buy one share of stock for every three shares currently owned. It is anticipated that the shares would be offered at a discount from the market price at the beginning of the offering period. In addition, it is anticipated there will be an over-subscription privilege. This over-subscription privilege may allow shareholders the opportunity to subscribe for additional shares at the same

discount price. The proceeds from the rights offering will be used to repay debt and to fund the commitments the Fund has made for new and follow-on investments. Proceeds from a rights offering may reduce the Fund's expense ratio, thus benefiting both participating and non-participating shareholders. However, non-participating shareholders will suffer dilution as they will own a smaller proportional interest in the Fund.

On June 22, 1994, the Board of Directors of the Fund approved a stock repurchase program, pursuant to which the Fund repurchased on the open market and cancelled 46,200 shares of its stock for \$640,159 in 1994. Such stock was repurchased at an average discount of 28.74% from its net asset value. In 1995, the Fund repurchased and cancelled 145,500 shares of its stock for \$1,993,642. The stock repurchased in 1995 was repurchased at an average discount of 33.61% from its net asset value. The Fund has not repurchased any stock since August 1995.

-19-

Net cash used by operating activities was \$402,820, \$185,849 and \$1,962,354 for the three years ended December 31, 1995. Increased expenses paid during 1993 included \$1,346,839 in incentive fees to the Management Company that were accrued by EQI as of December 31, 1992, and \$454,040 in expenses related to the June 30, 1993 merger of EQI with and into the Fund.

At December 31, 1995, the Fund had \$60,232,594 of its total assets of \$132,450,176 invested in temporary cash investments consisting of money market securities. This amount includes proceeds from a \$60,000,000 note payable to a bank that is utilized to enable the Fund to achieve adequate diversification to maintain its pass-through tax status as a regulated investment company. Such amount was repaid to the bank on January 2, 1996.

The Fund has the ability to borrow funds and issue forms of indebtedness, subject to certain restrictions. Net investment income and net 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 contingencies or to make follow-on or new investments.

The Fund reserves 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 shareholders 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

Net investment income (loss) after all expenses amounted to \$(668,114), \$518,473, and \$(2,812,912) for the three years ended December 31, 1995. Income from portfolio securities increased to \$2,859,707 in 1995 as compared to \$1,613,414 in 1994 and \$1,184,121 in 1993, due to the increase in amounts invested in interest and dividend-bearing portfolio securities during 1995 and 1994. The Fund also received \$593,665 in dividends and payments to induce the Fund to convert preferred stock to common stock of Champion Healthcare Corporation in 1995, which paid none in 1994 or 1993. In addition, the Fund accrued \$185,850 of interest income on one portfolio security in 1995 which had been completely reserved in 1994 as uncollectible. Interest income from temporary cash investments was \$215,527 in 1995, \$307,722 in 1994 and \$368,289 in 1993. The decrease in 1995 as compared to 1994 and 1993 was a result of lower investable balances throughout the year.

The net investment losses in 1995 and 1993 were primarily attributable to the accrual of \$1,277,595 and \$1,947,330, respectively, in deferred management incentive fees caused by the realized gains from the sales of portfolio securities in 1995 and an increase in the net unrealized appreciation of portfolio securities during 1993. Also, in 1993, the Fund recorded non-recurring expenses of \$454,040 related to the Merger.

Mailing, printing and other expenses increased to \$338,434 during 1995, as compared to \$165,330 during 1994 and \$171,308 during 1993, due to the higher cost for the preparation and distribution of the annual report and proxy statement for the annual shareholder meeting held in June 1995. Interest expense increased to \$318,048 in 1995 as compared to \$135,252 in 1994 and \$157,317 in 1993, due to the increase of the average daily balances outstanding on the lines of credit to \$2,839,315 in 1995, from \$994,520 in 1994 and \$821,918 in 1993.

-20-

The Management Company receives management fee compensation at an annual rate of 2% of the net assets of the Fund. Such fees amounted to \$1,237,775, \$1,212,457 and \$1,243,559 in 1995, 1994 and 1993, respectively.

The Management Company also receives or must reimburse a management incentive fee equal to 20% of net realized capital gains less unrealized capital depreciation, computed on a cumulative basis over the life of the Fund. Incentive fee reimbursements of \$203,250 were received during the year ended December 31, 1993. Deferred management incentive fee expense (income) for 1995, 1994 and 1993 totaled \$1,277,595, \$(582,622) and \$1,947,330, respectively. The deferred management incentive fee expense (income) relates to the increase (decrease) in net unrealized appreciation of portfolio securities and will not be paid until such appreciation is realized.

## REALIZED GAINS AND LOSSES ON SALES OF PORTFOLIO SECURITIES

During the year ended December 31, 1995, the Fund realized net capital gains of \$7,668,524 from the sale of securities of six Portfolio Companies. The Fund sold 116,590 shares of Allied Waste Industries, Inc. common stock for \$1,049,310, realizing a capital gain of \$490,032; 96,000 shares of Garden Ridge Corporation common stock for \$2,928,000, realizing a capital gain of \$2,906,667; 175,000 shares of NCI Building Systems, Inc. common stock for \$3,064,685, realizing a capital gain of \$2,785,063; 30,000 shares of Tech-Sym Corporation for \$909,433, realizing a capital gain of \$801,142 and 49,444 shares of USA Waste Services, Inc. for \$899,218, realizing a capital gain of \$685,620.

During the year ended December 31, 1994, the Fund realized \$350,309 of net capital losses from the sale of its investments in the securities of five Portfolio Companies. During 1994 the Fund sold 37,501 shares of NCI for \$637,517, realizing a net capital gain of \$577,596 on such sale. In addition, the Fund received \$213,944 from the escrow account related to the sale of Denver Technologies, Inc. and received a final payment of \$22,138 related to the sale of Gulf Coast Entertainment Corporation. Such amounts were recorded as capital gains. On July 19, 1994, the Fund sold its investment in MidCon Bottlers, L. P. for \$950,000, realizing a \$910,968 capital gain. The Fund also sold 28 shares of Travis International, Inc. preferred stock for \$28,000 and 5,855 shares of Garden Ridge Corporation common stock for \$5,855, in each case at the Fund's cost. During 1994, a loss of \$2,074,955 on the Fund's investment in Springtime, Inc. I, was realized when Springtime declared bankruptcy.

During the year ended December 31, 1993, the Fund realized \$2,457,906 of net capital losses from the sale or disposition of its investments of nine Portfolio Companies. The Fund sold 223,333 shares of A.C. Liquidating Corporation, 228,076 shares of EnClean, Inc., 441,776 shares of NCI Building Systems, Inc., 427,000 shares of Springtime, Inc. I, 20,000 shares of USA Waste Services, Inc., 50,000 shares of Williams & Mettle Co. and 8,439,739 shares of Yellow Cab Service Corporation ("Yellow Cab"), realizing net capital gains (losses) of \$(1,449,999), \$(4,898), \$4,725,580, \$(1,070,607), \$182,350, \$(944,500) and \$(4,369,692), respectively. The Fund also wrote off its remaining 514,887 shares of A.C. Liquidating Corporation common stock realizing a capital loss of \$316,140. In addition, \$710,000 and \$80,000 of payments were received from Gulf Coast Entertainment Corporation and La Prairie, Inc. and recorded as capital gains.

## UNREALIZED APPRECIATION AND DEPRECIATION OF PORTFOLIO SECURITIES

Net unrealized appreciation on investments decreased \$1,280,549 during the year ended December 31, 1995, from \$9,255,817 to \$7,975,268. Such net decrease resulted from increases in the estimated fair value of securities of six of the Fund's Portfolio Companies aggregating \$13,601,466, decreases in the estimated fair value of securities of five portfolio Companies aggregating \$10,971,005 and the transfer

-21-

of \$3,911,010 in net unrealized appreciation to net realized gains from the sale of investments in five companies.

Net unrealized appreciation on investments decreased \$2,562,801 during the year ended December 31, 1994, from \$11,818,618 to \$9,255,817. Such net decrease resulted from increases in the estimated fair value of securities of four of the Fund's Portfolio Companies aggregating \$5,432,740, decreases in the estimated fair value of securities of ten Portfolio Companies aggregating \$9,041,307 and a net transfer of \$1,045,766 from unrealized losses to realized losses from the disposition of investments in three companies.

Net unrealized appreciation on investments increased \$11,178,304 during the year ended December 31, 1993, from \$640,314 to \$11,818,618. Such net increase resulted from increases in the estimated fair value of securities of ten of the Fund's Portfolio Companies aggregating \$11,498,594, decreases in the estimated fair value of securities of six Portfolio Companies aggregating \$4,573,073 and a net transfer of \$4,252,783 from unrealized to realized losses from the disposition of investments in seven companies.

## DIVIDENDS

The Fund declared dividends of \$5,814,990 (\$2.00 per share), \$763,268 (\$0.25 per share) and \$2,049,038 (\$0.68 per share) during 1995, 1994 and 1993, respectively. The Fund adopted a policy effective in 1995, to make dividend distributions of at least \$0.50 per share on an annual basis. In the event that taxable income, including realized capital gains, exceeds \$0.50 per share in any year, additional dividends may be declared to distribute such excess. The 1994 dividend was paid in cash and represented a return of capital. The 1995 and 1993 dividends, which represented the Fund's net capital gains for tax purposes, were paid in additional shares of common stock or in cash by specific election of the shareholders in December 1995 and January 1994. The Fund paid \$2,753,180 and \$662,594 in cash and issued 231,080 and 85,981 additional shares of stock at \$13.25 and \$16.125 per share, in December 1995 and January 1994, respectively, in connection with such dividends.

## PORTFOLIO INVESTMENTS

During the year ended December 31, 1995, the Fund invested \$11,917,308 in five new Portfolio Companies and made follow-on investments in seven Portfolio Companies of \$2,734,411, including \$865,909 in accrued interest and dividends and conversion inducement payments received in the form of additional portfolio securities.



On May 9, 1995, Garden Ridge Corporation ("GRDG") effected a 4.5-for-1 stock split of its outstanding common stock in connection with an initial public offering ("IPO") of its common stock. The number of shares held by the Fund has been adjusted to reflect such stock split. During June 1995, the fund exercised warrants and options to acquire an additional 107,694 shares of GRDG common stock for \$407,172. Concurrent with the IPO, GRDG redeemed the 59,207 shares of preferred stock for \$355,242 and repaid the \$3,195,671 in subordinated notes held by the Fund.

On June 30, 1995, CogniSeis Development, Inc. was merged into Tech-Sym Corporation. The Fund received 62,759 shares of Tech-Sym Corporation common stock in a tax-free exchange for its CogniSeis Development, Inc. common stock. In addition, on June 30, 1995, Allied Waste Industries, Inc. ("Allied") repaid in full the \$1,000,000 bridge note owed to the Fund. The accrued interest of \$67,494 on the bridge loan was paid to the Fund in August 1995 in the form of 13,864 shares of Allied common stock.

-22-

In May 1995, the Fund invested \$271,000 in Midway Airlines Corporation ("Midway") in exchange for a 12% subordinated note and \$71,000 in A. C. Liquidating Corporation. in exchange for a 10% promissory note. In connection with the Midway note, the Fund received warrants to buy up to 203,250 shares of Class C common stock of Midway for \$.01 per share through April 2002. During June 1995, the Fund reacquired 80,662 shares of Class C common stock and 48,990 shares of junior preferred stock of Midway which it had previously recorded as sold under a contract for sale to certain other shareholders of Midway.

In July 1995, the Fund acquired 67,500 shares of Series B senior convertible preferred stock of Industrial Equipment Rentals, Inc. ("IER") for \$250,050 and advanced \$499,950 to IER in exchange for a 9% senior subordinated debenture.

During the third quarter of 1995, the Fund advanced an additional \$100,000 to Williams & Mettle Co. on the junior participation prime + 1.75% note. In addition, the Fund's \$204,750 in accrued interest receivable on the Williams & Mettle Co. 12% subordinated promissory note was rolled into a new \$677,250, 12% subordinated promissory note.

In September 1995, the Fund acquired 2,986,408 shares of common stock and 3,705,900 shares of Series B preferred stock of Strategic Holdings, Inc., for \$2,986,408 and \$3,705,900, respectively. In addition, the Fund acquired 1,000 shares of SMIP, Inc. for \$150,000 and invested \$175,000 in a 15% promissory note of SMIP, Inc. Strategic Holdings, Inc. was formed to acquire Strategic Materials, Inc., formerly known as Allwaste Recycling, Inc., the glass recycling division of Allwaste, Inc.

In October 1995, the Fund invested \$2,600,000 in exchange for a 36.11% limited partnership interest in Summit/DPC Partners, L. P., a limited partnership created to invest in DPC Acquisition Corp., which was created to acquire Doane Products Company, which is believed to be the largest manufacturer in the United States of dry pet food for private label customers. Summit currently owns approximately 17.5% of the equity of DPC Acquisition Corp.

During December 1995, the Fund invested \$2,250,000 in Carruth-Doggett Industries, Inc. ("CDI"), in exchange for a 10% senior subordinated promissory note. In addition, the Fund received warrants to buy 33,333 shares of common stock of CDI for \$.01 per share through December 14, 2005, and 333 shares of common stock of CDE Corp for \$.01 per share through December 14, 2005. CDI operates five Case Equipment dealerships in and around the Houston area.

In December 1995, the Fund advanced \$50,000 on a \$200,000 prime rate promissory note to American Residential Services, Inc., a company formed to acquire existing businesses which provide plumbing, heating and air conditioning and electrical services to the residential community.

On December 31, 1995, the Fund converted its Series C, Series D and 9% cumulative preferred stock of Allied Waste Industries, Inc. ("AWIN") into 149,250, 398,335 and 421,802 shares of AWIN common stock, respectively. In addition, the Fund exercised its warrants to buy 48,438 and 22,000 shares of AWIN common stock for \$175,830 and \$93,500 respectively.

Also on December 31, 1995 the Fund converted its Series A and Series B preferred stock of Champion Healthcare Corporation ("CHC") into 603,327 and 58,404 shares of CHC common stock respectively. In addition, the Fund received 171,921 shares of CHC common stock, valued at \$593,665, in payment of preferred stock dividends and as inducement to enter into the transaction and to forego any additional dividends on the Series C and Series D preferred stock of CHC.

-23-

During the year ended December 31, 1994, the Fund made follow-on investments of \$9,532,649 in nine Portfolio Companies.

During the year ended December 31, 1993, the Fund made follow-on investments of \$11,285,430 in six Portfolio Companies and invested \$3,974,700 in two new Portfolio Companies.

For a description of the business of each Portfolio Company in which the Fund has invested, see "Current Portfolio Companies".

Of the companies in which the Fund has investments at December 31, 1995, only AWIN, CHC, Drypers Corporation, GRDG, NCI Building Systems, Inc.,

Sports and Leisure and Tech-Sym Corporation are publicly-held. The others each have a small number of shareholders 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 the proper valuation of the Fund's investment. See "Valuation".

#### SUBSEQUENT EVENTS

Subsequent to December 31, 1995, the Fund sold 32,759 shares of Tech-Sym Corporation for \$1,029,900, realizing a net capital gain of \$911,655 on such sale.

On January 2, 1996, the Fund exercised its warrants to acquire 163,044 shares of AWIN on a net exercise basis. This resulted in the Fund receiving 56,054 shares of AWIN, which were paid for by tendering the remaining 106,990 shares to AWIN. On January 26, 1996, the Fund sold the 56,054 shares of common stock along with an additional 70,000 shares of AWIN common stock in AWIN'S secondary stock offering. The Fund received proceeds of \$813,679, resulting in a realized capital gain of \$461,917.

In January 1996, the Fund advanced an additional \$100,000 to American Residential Services, Inc. pursuant to the terms of a \$200,000 prime rate promissory note.

Subsequent to December 31, 1995, the Fund repaid \$61,900,000 of notes payable to the bank.

Subsequent to December 31, 1995, the Fund intends to file a registration statement for a rights offering. Under the proposed rights offering, the Fund would issue each existing shareholder rights to buy one share of stock for every three shares currently owned. It is anticipated that the rights offering shares would be offered at a discount from the market price at the beginning of the offering period. The proceeds from the rights offering would be used to repay debt and to fund the commitments the Fund has made for new and follow-on investments.

-24-

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

##### Report of Independent Public Accountants

To the Board of Directors of  
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, 1995 and 1994, 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, 1995, and the selected per share data and ratios for each of the five years in the period ended December 31, 1995. These financial statements, 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, selected per share data and ratios based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 verification or confirmation of securities owned as of December 31, 1995 and 1994. 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.

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, 1995 and 1994, the results of its operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 1995, and the selected per share data and ratios for each of the five years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 3, the financial statements include investment securities valued at \$68,098,481 (110% of net assets) and \$58,813,951 (97% of net assets) as of December 31, 1995 and 1994, respectively, whose values have been estimated by Equus Capital Corporation (the "Sub-Adviser") 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 Sub-Adviser 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 appropriate. However, because of the inherent uncertainty of valuation, the Sub-Adviser'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.

/s/Arthur Andersen LLP

ARTHUR ANDERSEN LLP

EQUUS II INCORPORATED  
BALANCE SHEETS  
DECEMBER 31, 1995 AND 1994

	1995	1994
	-----	-----
ASSETS		
Investments in portfolio securities at fair value (cost of \$63,635,092 and \$54,864,309, respectively) .....	\$ 71,610,360	\$ 64,120,126
Temporary cash investments, at cost which approximates fair value .....	60,232,594	45,474,560
Cash .....	7,267	1,407
Accounts receivable .....	1,326	440
Accrued interest receivable .....	525,939	257,903
Commitment fees .....	37,500	28,125
Deferred reorganization costs, net .....	35,190	58,650
Total assets .....	132,450,176	109,941,211
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable .....	242,286	137,175
Due to management company .....	309,266	305,932
Deferred incentive fee due to management company .....	4,295,335	3,017,740
Notes payable to bank .....	65,750,000	45,600,000
Total liabilities .....	70,596,887	49,060,847
Commitments and contingencies		
Net assets:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, no shares issued or outstanding .....	--	--
Common stock, \$.001 par value, 10,000,000 shares authorized, 3,138,575 and 3,053,017 shares issued and outstanding, respectively .....	3,139	3,053
Additional paid-in capital .....	51,291,676	50,891,822
Undistributed net investment income .....	--	--
Undistributed net capital gains .....	2,583,206	729,672
Unrealized appreciation of portfolio securities, net .....	7,975,268	9,255,817
Total net assets .....	\$ 61,853,289	\$ 60,880,364
Net assets per share .....	\$ 19.71	\$ 19.94
	=====	=====

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

EQUUS II INCORPORATED  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
	-----	-----	-----
Investment income:			
Income from portfolio securities .....	\$ 2,859,707	\$ 1,613,414	\$ 1,184,121
Interest on temporary cash investments .....	215,527	307,722	368,289
	-----	-----	-----
Total investment income .....	3,075,234	1,921,136	1,552,410
	-----	-----	-----
Expenses:			
Management fee .....	1,237,775	1,212,457	1,243,559
Management incentive fee .....	--	--	(203,250)
Deferred management incentive fee .....	1,277,595	(582,622)	1,947,330
Director fees and expenses .....	206,124	157,327	195,288
Merger expenses .....	--	--	454,040
Professional fees .....	251,770	209,845	204,715
Administrative fees .....	50,000	50,000	72,370
Mailing, printing and other expenses .....	338,434	165,330	171,308
Interest expense .....	318,048	135,252	157,317
Franchise taxes .....	40,142	31,614	29,185
Amortization .....	23,460	23,460	93,460
	-----	-----	-----
Total expenses .....	3,743,348	1,402,663	4,365,322
	-----	-----	-----
Net investment income (loss) .....	(668,114)	518,473	(2,812,912)
	-----	-----	-----
Realized gain (loss) on sales of portfolio securities, net .....	7,668,524	(350,309)	(2,457,906)
	-----	-----	-----
Unrealized appreciation of portfolio securities, net:			
End of year .....	7,975,268	9,255,817	11,818,618
Beginning of year .....	9,255,817	11,818,618	640,314
	-----	-----	-----
Increase (decrease) in unrealized appreciation of portfolio securities, net .....	(1,280,549)	(2,562,801)	11,178,304
	-----	-----	-----
Total increase (decrease) in net assets from operations .....	\$ 5,719,861	\$ (2,394,637)	\$ 5,907,486
	=====	=====	=====

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

-27-

EQUUS II INCORPORATED  
STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
	-----	-----	-----
Operations:			
Net investment income (loss) .....	\$ (668,114)	\$ 518,473	\$ (2,812,912)
Realized gain (loss) on sales of portfolio securities, net .....	7,668,524	(350,309)	(2,457,906)
Increase (decrease) in unrealized appreciation of portfolio securities, net .....	(1,280,549)	(2,562,801)	11,178,304
	-----	-----	-----
Increase (decrease) in net assets from operations .....	5,719,861	(2,394,637)	5,907,486
	-----	-----	-----
Capital transactions:			
Redemptions of fractional shares .....	(114)	(897)	(1,163)
Stock repurchased and retired under common stock repurchase plan .....	(1,993,642)	(640,159)	--
Dividends .....	(5,814,990)	(763,268)	(2,049,038)
Shares issued in common stock dividend .....	3,061,810	--	1,386,444
	-----	-----	-----
Decrease in net assets from capital share transactions .....	(4,746,936)	(1,404,324)	(663,757)
	-----	-----	-----
Increase (decrease) in net assets .....	972,925	(3,798,961)	5,243,729
	-----	-----	-----
Net assets, at beginning of year .....	60,880,364	64,679,325	59,435,596
	-----	-----	-----
Net assets, at end of year .....	\$ 61,853,289	\$ 60,880,364	\$ 64,679,325
	=====	=====	=====

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

-28-

EQUUS II INCORPORATED  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
	-----	-----	-----
Cash flows from operating activities:			
Interest received .....	\$ 1,940,403	\$ 1,801,962	\$ 1,903,363
Cash paid to management company, directors, a bank and suppliers .....	(2,343,223)	(1,987,811)	(3,865,717)
Net cash used by operating activities .....	(402,820)	(185,849)	(1,962,354)
Cash flows from investing activities:			
Purchase of portfolio securities .....	(13,785,810)	(9,512,649)	(15,164,362)
Proceeds from sales of portfolio securities .....	8,850,646	1,857,460	8,282,232
Principal payments from portfolio securities .....	4,698,814	156,582	5,808,189
Purchase of temporary cash investments with original maturities of greater than three months .....	--	(300,000)	(2,879,246)
Maturity of temporary cash investments with original maturities of greater than three months .....	300,000	200,000	5,161,751
Notes receivable proceeds .....	--	--	4,070,000
Repayment of advances from portfolio companies .....	--	--	(101,497)
Net cash provided (used) by investing activities .....	63,650	(7,598,607)	5,177,067
Cash flows from financing activities:			
Advances from bank .....	273,650,000	152,600,000	181,000,000
Repayments to bank .....	(253,500,000)	(152,000,000)	(176,750,000)
Dividends paid .....	(2,753,180)	(1,425,862)	(1,649,305)
Repurchase of common stock .....	(1,993,642)	(640,159)	--
Redemptions of fractional shares .....	(114)	(897)	(1,163)
Net cash provided (used) by financing activities .....	15,403,064	(1,466,918)	2,599,532
Net increase (decrease) in cash and cash equivalents .....	15,063,894	(9,251,374)	5,814,245
Cash and cash equivalents at beginning of year .....	45,175,967	54,427,341	48,613,096
Cash and cash equivalents at end of year, excluding \$300,000 and \$200,000 of temporary cash investments with original maturities of greater than three months at December 31, 1994 and 1993, respectively .....	\$ 60,239,861	\$ 45,175,967	\$ 54,427,341
	=====	=====	=====

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

-29-

EQUUS II INCORPORATED  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993  
(Continued)

	1995	1994	1993
	-----	-----	-----
Reconciliation of increase (decrease) in net assets from operations to net cash used by operating activities:			
Increase (decrease) in net assets from operations .....	\$ 5,719,861	\$ (2,394,637)	\$ 5,907,486
Adjustments to reconcile increase (decrease) in net assets from operations to net cash used by operating activities:			
Realized (gain) loss on sales of portfolio securities, net .....	(7,668,524)	350,309	2,457,906
Decrease (increase) in unrealized appreciation, net .....	1,280,549	2,562,801	(11,178,304)
Fees received in stock .....	--	(20,000)	--
Decrease (increase) in accounts receivable .....	(886)	1,464	1,432
Accounts receivable from portfolio company written off .....	--	--	171,551
Decrease (increase) in accrued interest receivable .....	(268,036)	(100,638)	177,970
Accrued interest or dividends exchanged for portfolio securities .....	(865,909)	--	--
Commitment fees paid .....	(75,000)	(56,250)	(56,250)
Amortization of commitment fee .....	65,625	56,250	70,313
Amortization of deferred reorganization costs .....	23,460	23,460	93,460
Increase (decrease) in accounts payable .....	105,111	(5,925)	(4,803)
Increase (decrease) in due to management company .....	1,280,929	(602,683)	396,885
Net cash used by operating activities .....	\$ (402,820)	\$ (185,849)	\$ (1,962,354)
	=====	=====	=====

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

-30-

EQUUS II INCORPORATED  
SUPPLEMENTAL INFORMATION - SELECTED PER SHARE DATA AND RATIOS  
FOR THE FIVE YEARS ENDED DECEMBER 31, 1995

	1995	1994	1993	1992	1991
	-----	-----	-----	-----	-----
Investment income .....	\$ 1.04	\$ 0.62	\$ 0.52	\$ 0.62	\$ 0.98
Expenses .....	1.26	0.45	1.45	1.11	0.60
Net investment income (loss) .....	(0.22)	0.17	(0.93)	(0.49)	0.38
	-----	-----	-----	-----	-----
Realized gain (loss) on sales of portfolio securities, net .....	2.58	(0.12)	(0.82)	3.73	(0.66)
Increase (decrease) in unrealized appreciation of portfolio securities, net .....	(0.43)	(0.83)	3.71	(2.10)	2.44
	-----	-----	-----	-----	-----
Increase (decrease) in net assets from operations .....	1.93	(0.78)	1.96	1.14	2.16
	-----	-----	-----	-----	-----
Capital transactions:					
Dividends .....	(2.00)	(0.25)	(0.68)	(1.12)	--
Effect of common stock repurchases .....	0.35	0.10	--	--	--
Dilutive effect of shares issued in common stock dividend .....	(0.51)	--	(0.13)	(0.35)	--
Deferred management company incentive fees .....	--	--	--	--	(0.63)
	-----	-----	-----	-----	-----
Net decrease in net assets from capital transactions .....	(2.16)	(0.15)	(0.81)	(1.47)	(0.63)
	-----	-----	-----	-----	-----
Net increase (decrease) in net assets .....	(0.23)	(0.93)	1.15	(0.33)	1.53
Net assets at beginning of year .....	19.94	20.87	19.72	20.05	18.52
	-----	-----	-----	-----	-----
Net assets at end of year .....	\$ 19.71	\$ 19.94	\$ 20.87	\$ 19.72	\$ 20.05
	=====	=====	=====	=====	=====
Weighted average number of shares outstanding during year in thousands .....	2,968	3,083	3,013	2,880	2,880
Ratio of expenses to average net assets .....	6.10%	2.23%	7.03%	5.46%	3.10%
Ratio of net investment income (loss) to average net assets .....	(1.09)%	0.83%	(4.53)%	(2.40)%	1.96%
Ratio of increase (decrease) in net assets from operations to average net assets .....	9.32%	(3.81)%	9.52%	5.64%	11.21%

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

-31-

EQUUS II INCORPORATED  
SCHEDULE OF PORTFOLIO SECURITIES  
DECEMBER 31, 1995

PORTFOLIO COMPANY	INITIAL INVESTMENT	DATE OF COST	FAIR VALUE
A.C. Liquidating Corporation		February 1985	
-4,885 shares of 10% Series C cumulative preferred stock		\$ 488,500	\$ -
-10% secured promissory notes		188,014	188,014
Allied Waste Industries, Inc. (NASDAQ - AWIN)		March 1989	
-1,397,698 shares of common stock		5,316,834	8,763,730
-Warrants to buy up to 163,044, 125,000 and 15,000 shares of common stock at \$4.60, \$5.00 and \$13.50 per share, respectively through May 1998, August 1999 and February 1997, respectively		-	5,095
American Residential Services, Inc.		December 1995	
-Prime rate promissory note		50,000	50,000
BSI Holdings, Inc., (formerly Brazos Sportswear, Inc.)			
-166,250 shares of common stock		1,330,000	1,800,000
-12% senior subordinated debenture		3,350,000	3,350,000
-10% subordinated promissory note		178,500	178,500
-Warrants to buy up to 64,715 shares of common stock at \$0.01 per share through December 2004		-	700,000
-1,000 shares of common stock of GCS RE, Inc.		132,910	132,910
-87,632 shares of common stock of Sports/Leisure, Inc.		82,734	876
-8% unsecured promissory note, due from Sports/Leisure, Inc.		5,005	5,005
Cardiovascular Ventures, Inc.		November 1991	
-150,000 shares of Series A convertible preferred stock		375,000	375,000
-214,286 shares of Series B convertible preferred stock		750,001	750,001
-56,717 shares of Series C convertible preferred stock		248,137	248,137

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

-32-

EQUUS II INCORPORATED  
SCHEDULE OF PORTFOLIO SECURITIES  
DECEMBER 31, 1995  
(Continued)

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

-35-

EQUUS II INCORPORATED  
SCHEDULE OF PORTFOLIO SECURITIES  
DECEMBER 31, 1995  
(Continued)

Substantial amounts 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 Allied Waste Industries, Inc., BSI Holdings, Inc., Cardiovascular Ventures, Inc., Champion Healthcare Corporation, Industrial Equipment Rentals, Inc. and Strategic Holdings, Inc., investment 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, the Fund is considered to have a controlling interest in A.C. Liquidating Corporation, BSI Holdings, Inc., Industrial Equipment Rentals, Inc., Restaurant Development Group, Inc., Strategic Holdings, Inc., Video Rental of Pennsylvania, Inc. and Williams & Mettler Co. In addition, Cardiovascular Ventures, Inc., David's Supermarkets, Inc., Drypers Corporation and Travis International, Inc. are considered to be affiliated entities of the Fund. The fair value of the investments in Allied Waste Industries, Inc., Champion Healthcare Corporation, Drypers Corporation and Garden Ridge Corporation include discounts from closing market prices of approximately \$1,867,084, \$1,226,855, \$589,626 and \$1,958,717, respectively, to reflect the effects of restrictions on the sale of such securities at December 31, 1995. Such discounts total \$5,642,282 or \$1.80 per share as of December 31, 1995. Income was earned in the amount of \$1,349,420, \$1,213,320 and \$611,549 for the years ended December 31, 1995, 1994 and 1993, respectively, on portfolio securities of companies in which the Fund has a controlling interest.

As defined in the Investment Company Act of 1940, all of the Fund's investments are in eligible portfolio companies. The Fund provides significant managerial assistance to all of the portfolio companies in which it has invested

except Cardiovascular Ventures, Inc., Midway Airlines Corporation, Summit/DPC Partners, L.P., Tech-Sym Corporation and Yellow Cab Service Corporation. The Fund provides significant managerial assistance to Portfolio Companies that comprise 89.5% of the total value of the investments in Portfolio Companies at December 31, 1995.

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

-36-

[NO HARD COPY FOR THIS PAGE]??

EQUUS II INCORPORATED  
SCHEDULE OF PORTFOLIO SECURITIES  
DECEMBER 31, 1994

PORTFOLIO COMPANY	INITIAL INVESTMENT	DATE OF COST	FAIR VALUE
<hr/>			
A.C. Liquidating Corporation		February 1985	
-4,885 shares of 10% Series C			
cumulative preferred stock		\$ 488,500	\$ 250,000
-10% secured promissory notes		200,000	200,000
Allied Waste Industries, Inc. (NASDAQ - AWIN)		March 1989	
-460,599 shares of common stock		1,594,282	1,711,563
-150,000 shares of Series C convertible			
preferred stock		750,000	750,000
-79,667 shares of 8% Series D convertible			
preferred stock		1,195,005	1,195,005
-2,012 shares of 9% cumulative convertible			
preferred stock		2,000,000	2,012,000
-9% subordinated bridge loan		1,000,000	1,000,000
-Warrants to buy up to 48,438, 125,000, 150,000, 22,000 and 15,000 shares of common stock at \$3.63, \$5.00, \$5.00, \$6.00 and \$13.50 per share, respectively through June 1997, August 1999, May 1998, February 1998 and February 1997, respectively		-	-
Brazos Sportswear, Inc.		February 1989	
-166,250 shares of common stock		1,330,000	1,800,000
-12% senior subordinated debenture		3,350,000	3,350,000
-10% subordinated promissory note		178,500	178,500
-1,000 shares of common stock of GCS RE, Inc.		132,910	132,910
-87,632 shares of common stock of Sports/Leisure, Inc.		82,734	11,392
-8% unsecured promissory note, due from Sports/Leisure, Inc.		9,296	9,296
-Warrants to buy up to 64,715 shares of common stock at \$0.01 per share through December 2004		-	700,000

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

-37-

EQUUS II INCORPORATED  
SCHEDULE OF PORTFOLIO SECURITIES  
DECEMBER 31, 1994  
(Continued)

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

-41-

EQUUS II INCORPORATED  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1995, 1994 AND 1993

(1) ORGANIZATION AND BUSINESS PURPOSE

Equus II Incorporated (the "Fund"), a Delaware corporation with perpetual existence, 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 American Stock Exchange under the symbol EQS.

On June 30, 1993, Equus Investments Incorporated ("EQI"), a Delaware corporation and corporate business development company was merged with and into the Fund. Each share of EQI was converted into 0.54 of a share of the Fund's common stock. The Fund issued 1,147,137 additional shares of common stock, net of 130 shares redeemed in lieu of fractional shares, in connection with the merger. The merger of EQI into the Fund was recorded as a pooling of interests for financial statement reporting purposes.

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 acquire other businesses, including leveraged buyouts. The Fund may also invest in recapitalizations of existing businesses or special situations from time to time. The Fund elected to be treated as a business development company under the Investment Company Act of 1940, as amended.



The Fund has entered into a management agreement with Equus Capital Management Corporation, a Delaware corporation (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 entered into a Sub-Adviser Agreement with Equus Capital Corporation, a Delaware corporation (the "Sub-Adviser"), pursuant to which the Sub-Adviser provides certain investment advisory services for the Fund, including preparing the Fund's quarterly net asset valuations. 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, of which \$50,000, \$50,000 and \$72,370, are included in the accompanying Statements of Operations for the years ended December 31, 1995, 1994 and 1993, respectively.

The Management Company also receives or must reimburse a management incentive fee equal to 20% of net realized capital gains less unrealized capital depreciation, computed on a cumulative basis over the life of the Fund. The Sub-Adviser receives a fee from the Management Company equal to 50% of the Management Company's net management incentive fee. The management incentive fee is paid or reimbursed quarterly in arrears.

Included in "Deferred management incentive fees" in the accompanying Balance Sheets are \$4,295,335 and \$3,017,740 of accrued management incentive fees at December 31, 1995 and 1994, respectively. Such fees are calculated on the net unrealized appreciation of investments in portfolio

-42-

securities and will not be paid until such appreciation is realized. Deferred management incentive fee expense (income) of \$1,277,595, \$(582,622) and \$1,947,330 related to increases (decreases) in unrealized appreciation on portfolio securities are included in the accompanying Statements of Operations for the three years ended December 31, 1995. Current management incentive fee expense reimbursement of \$203,250 is included in the accompanying Statement of Operations for the year ended December 31, 1993.

The Sub-Adviser is a wholly-owned subsidiary of the Management Company and the Management Company is controlled by a privately-owned corporation.

As compensation for services rendered to the Fund, each director who is not an officer of the Fund receives 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 for each committee meeting attended (\$500 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. Certain officers and directors of the Fund serve as directors of Portfolio Companies, and receive and retain fees in consideration for such service.

### (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. Investments in companies whose securities are publicly traded are valued at their quoted market price, less a discount to reflect the effects of restrictions on the sale of such securities ("Valuation Discount"), if applicable. Cost is used to approximate fair value of other investments until significant developments affecting an investment provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Sub-Adviser, subject to the approval of the Board of Directors. The fair market 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. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, \$68,098,481 (including \$26,862,806 in publicly-traded securities, net of a \$5,642,282 Valuation Discount) and \$58,813,951 (including \$18,359,084 in publicly-traded securities, net of a \$4,723,312 Valuation Discount) at December 31, 1995 and 1994, respectively, the Sub-Adviser's estimate of fair value may significantly differ from the fair 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 or management incentive fees which might become payable on disposition of such investments. Such management incentive fees are recorded in total on the Fund's Balance Sheets. See Note 2 above.

**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.

**Income Taxes** - No provision for Federal income taxes has been made in the accompanying financial statements as the Fund has qualified for pass-through treatment as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986. As such, all net income is allocable to the stockholders for inclusion in their respective tax returns. Net capital losses are not

allocable to the shareholders but can be carried over to offset future earnings of the Fund.

-43-

(4) BOOK TO TAX RECONCILIATION

During 1993, the Fund adopted Statement of Position 93-2 which relates to the amounts distributed by the Fund as net investment income or net capital gains, which are often not equal to the corresponding income or gains shown in the Fund's financial statements. The Fund had net investment income during 1995 of \$188,304 for tax purposes. A dividend of such income will be declared and distributed during 1996. The Fund had a net investment loss for tax purposes for the years ended December 31, 1994 and 1993, and therefore distributed no net investment income. The Fund, for book purposes, has undistributed net capital gains of \$2,583,206 in the accompanying Balance Sheet at December 31, 1995. However, for tax purposes, the Fund has distributed all of its net realized capital gains except for \$9,995 which the Fund anticipates will be distributed in 1996. The following is a reconciliation of the difference in the Fund's net realized gain (loss) on the sale of portfolio securities for book and tax purposes.

	1995	1994	1993
	-----	-----	-----
Net realized gain (loss) on the sales of portfolio securities, book .....	\$ 7,668,524	\$ (350,309)	\$ (2,457,906)
EQI net realized loss through date of merger .....	--	--	5,819,691
Reversal of amounts previously written off .....	48,838	--	--
Tax basis in Gulf Coast Entertainment Corporation .....	--	--	(220,223)
Utilization of capital loss carryforwards .....	(1,892,377)	--	(2,637,211)
Effect of EQI Section 382 limitation on capital loss carryforwards .....	--	--	1,542,065
Net realized gain (loss) on the sales of portfolio securities, tax .....	\$ 5,824,985	\$ (350,309)	\$ 2,046,416
	=====	=====	=====

(5) DIVIDENDS

The Fund declared dividends of \$5,814,990 (\$2.00 per share), \$763,268 (\$0.25 per share) and \$2,049,038 (\$0.68 per share) during 1995, 1994 and 1993, respectively. The Fund adopted a policy effective in 1995, to make dividend distributions of at least \$0.50 per share on an annual basis. In the event that taxable income, including realized capital gains, exceeds \$0.50 per share in any year, additional dividends may be declared to distribute such excess. The 1994 dividend was paid in cash and represented a return of capital. The 1995 and 1993 dividends, which represented the Fund's net capital gains for tax purposes, were paid in additional shares of common stock or in cash by specific election of the shareholders in December 1995 and January 1994. The Fund paid \$2,753,180 and \$662,594 in cash and issued 231,080 and 85,981 additional shares of stock at \$13.25 and \$16.125 per share, in December 1995 and January 1994, respectively, in connection with such dividends.

(6) TEMPORARY CASH INVESTMENTS

Temporary cash investments, which represent the short-term utilization of cash prior to investment in securities of portfolio companies, distributions to the shareholders or payment of expenses, consist of money market accounts earning interest at rates ranging from 3.50% to 5.30% at December 31, 1995. The following is a list of temporary cash investments at December 31, 1995:

-44-

Broadcort Money Plus .....	\$ 1,338
Dreyfus Cash Management Fund .....	58,141
Dreyfus Treasury Cash Management Fund .....	60,026,074
First Interstate Bank of Texas, N.A .....	85,353
Great Hall Money Market .....	8,211
Pitkin County Bank .....	53,477
	-----
Total money market accounts .....	\$60,232,594

(7) PORTFOLIO SECURITIES

During the year ended December 31, 1995, the Fund invested \$11,917,308 in five new companies and made follow-on investments of \$2,734,411 in seven portfolio companies, including \$865,909 in accrued interest, dividends and conversion inducement payments received in the form of additional portfolio securities. In addition, the Fund realized capital gains of \$7,668,524 during the year ended December 31, 1995.

During the year ended December 31, 1994, the Fund made follow-on investments of \$9,532,649 in nine portfolio companies, and realized \$350,309 of net capital losses from the sale of a portion of its investment in five portfolio companies.

During the year ended December 31, 1993, the Fund made follow-on investments of \$11,285,430 in six portfolio companies and invested \$3,974,700 in two new companies. The Fund realized \$2,457,906 of net capital losses from the sale or disposition of all or a portion of its investments in nine portfolio companies during the year ended December 31, 1993.

(8) DEFERRED REORGANIZATION COSTS

The Fund paid \$117,300 in expenses related to the formation of the Fund and is amortizing such amount over 5 years. The Fund also paid \$100,000 in expenses related to the formation of EQI. At the time of the merger into the Fund, EQI had \$60,000 of such expenses which had not been amortized. The Fund amortized such balance in full on June 30, 1993. Accumulated amortization of such expenses totaled \$182,110 and \$158,650 at December 31, 1995 and 1994, respectively.

(9) NOTES PAYABLE TO BANK

The Fund had a \$60,000,000 line of credit promissory note with a bank, with interest payable at the prime rate, at December 31, 1995. The prime rate was 8.5% at December 31, 1995. This note matures on July 15, 1996. The Fund had \$60,000,000 and \$45,000,000 outstanding on such note at December 31, 1995 and 1994, respectively, that was secured by \$60,000,000 and \$45,000,000 of the Fund's temporary cash investments at December 31, 1995 and 1994. The average daily balance outstanding on such line of credit during 1995, 1994 and 1993 was \$2,079,452, \$978,082 and \$821,918, respectively. The Fund paid \$75,000, \$56,250 and \$56,250 in commitment fees on such notes in 1995, 1994 and 1993, which were deferred and are being amortized over the twelve month commitment period. Amortization expense related to such fees is included in "Interest expense" in the accompanying Statements of Operations for each of the three years ended December 31, 1995.

The Fund also had a \$13,000,000 revolving line of credit from a bank, with interest payable at prime. The outstanding balance on such line of credit was \$5,750,000 and \$600,000 at December 31, 1995 and 1994, respectively. The revolving line of credit is due on December 31, 1996. The average

-45-

daily balance outstanding on such note during 1995 and 1994 was \$759,863 and \$16,438, respectively. The Fund paid facility fees of \$3,125 and \$6,250 to the bank for such revolving line of credit during 1995 and 1994, respectively, which are included in interest expense for the years ended December 31, 1995 and 1994. The line of credit is secured by a portion of the Fund's investment in Allied Waste Industries, Inc., Champion Healthcare Corporation, Drypers Corporation, Garden Ridge Corporation and NCI Building Systems, Inc. Subsequent to December 31, 1995, the Fund received a commitment for a new \$20,000,000 revolving line of credit with another bank which will replace its \$13,000,000 line of credit.

(10) COMMITMENTS AND CONTINGENCIES

On June 22, 1994, the Board of Directors of the Fund approved a stock repurchase program. Stock acquired under the repurchase program is cancelled. Through December 31, 1994, the Fund repurchased on the open market and cancelled 46,200 shares of its stock for \$640,159. Such stock was repurchased at an average discount of 28.74% from its net asset value. During 1995, the Board of Directors of the Fund authorized the repurchase of additional stock, and the Fund repurchased and cancelled 145,500 shares of its stock for \$1,993,642. The stock repurchased in 1995 was repurchased at an average discount of 33.61% from its net asset value.

The Fund has made commitments to invest, under certain circumstances, up to an additional \$1,550,000 in American Residential Services, Inc., \$5,000,000 in BSI Holdings, Inc., \$2,500,000 in Drypers Corporation and \$565,500 in GCS RE, Inc. In connection with its commitment to GCS RE, Inc., the Fund has committed to a bank to maintain at least \$380,000 in temporary cash investments to fund such commitment. In addition, the Fund has committed to invest up to \$8,600,000 in two new companies.

Certain of the portfolio companies are involved in asserted claims and have the possibility for unasserted claims which may ultimately affect the fair value of the Fund's portfolio investments. In the opinion of Management, the financial position or operating results of the Fund will not be materially affected by these claims.

(11) SUBSEQUENT EVENTS

Subsequent to December 31, 1995, the Fund sold 32,759 shares of Tech-Sym Corporation for \$1,029,900, realizing a net capital gain of \$911,655 on such sale.

On January 2, 1996, the Fund exercised its warrants to acquire 163,044 shares of Allied Waste Industries, Inc. ("AWIN") on a net exercise basis. This resulted in the Fund receiving 56,054 shares of AWIN which were paid for by tendering the remaining 106,990 shares to AWIN. On January 26, 1996, the Fund sold the 56,054 shares of common stock along with an additional 70,000 shares of AWIN common stock in AWIN'S secondary offering. The Fund received proceeds of \$813,679 resulting in a realized capital gain of \$461,917.

In January 1996, the Fund advanced an additional \$100,000 to American Residential Services, Inc. under a \$200,000 prime rate promissory note.

Subsequent to December 31, 1995, the Fund repaid \$61,900,000 of notes payable to the bank.

Subsequent to December 31, 1995, the Fund intends to file a registration statement for a rights offering. Under the proposed rights offering, the Fund would issue each existing shareholder a right to

-46-

buy one share of stock for every three shares currently owned. It is anticipated that the rights offering shares would be offered at a discount from the market price at the beginning of the offering period. The proceeds from the rights offering would be used to repay debt and to fund the commitments the Fund has made for new and follow-on investments.

-47-

[NO HARD COPY FOR THIS PAGE]??

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information about the Directors and Executive Officers of the Registrant is incorporated by reference to the Fund's Definitive Proxy Statement for the 1996 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, 1996 (the "1996 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION.

Information regarding Executive Compensation is incorporated by reference to the Fund's 1996 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 1996 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information regarding Certain Relationships and Related Transactions is incorporated by reference to the Fund's 1996 Proxy Statement.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) (1)	FINANCIAL STATEMENTS	PAGES
	Report of Independent Public Accountants .....	25
	Balance Sheets at December 31, 1995 and 1994 .....	26
	Statements of Operations for the years ended December 31, 1995, 1994 and 1993 .....	27
	Statements of Changes in Net Assets for the years ended December 31, 1995, 1994 and 1993 .....	28
	Statements of Cash Flows for the years ended December 31, 1995, 1994 and 1993 .....	29
	Supplemental Information-Selected Per Share Data and Ratios for the five years ended December 31, 1995 .....	31

-49-

	Schedule of Portfolio Securities at December 31, 1995 .....	32
	Schedule of Portfolio Securities at December 31, 1994 .....	37
	Notes to Financial Statements .....	42

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, not present 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. [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 [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.

10. Material Contracts

- (a) Form of Management Agreement between the Fund and Equus

Capital Management Corporation. [Form N-14, Exhibit 6(c) to the Registration Statement file number 33- 60118]

- (b) Form of Sub-Adviser Agreement between Equus Capital Management Corporation and Equus Capital Corporation. [Form N-14, Exhibit 5(c) to the Registration Statement, file number 33-42621]
- (c) Agreement and Plan of Merger dated March 26, 1993 [Form N-14, Exhibit A to the Joint Proxy Statement and Prospectus, file number 33-60118]
- (d) First Amendment to Agreement and Plan of Merger, dated May 5, 1993 [Form N-14, Exhibit B to the Registration Statement, file number 33-60118]
- (e) Second Amendment to Agreement and Plan of Merger, dated June 15, 1993 [Exhibit 10(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993]
- (f) Form of Safekeeping Agreement with Southwest Guaranty Trust Company. [Form N-14, exhibit 6 to the Registration Statement, file number 33-42621]

(b) REPORTS ON FORM 8-K

-49-

[NO HARD COPY FOR THIS PAGE]??

No reports on Form 8-K were filed by the Fund during the last quarter of the period covered by this report.

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/ NOLAN LEHMANN

Date: February 29, 1996 Nolan Lehmann, President

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 (Gregory J. Flanagan)	Director	February 29, 1996
/S/ROBERT L. KNAUSS (Robert L. Knauss)	Director	February 29, 1996
/S/GARY R. PETERSEN (Gary R. Petersen)	Director	February 29, 1996
/S/JOHN W. STORMS (John W. Storms)	Director	February 29, 1996
/S/FRANCIS D. TUGGLE (Francis D. Tuggle)	Director	February 29, 1996
/S/EDWARD E. WILLIAMS (Edward E. Williams)	Director	February 29, 1996
/S/NOLAN LEHMANN (Nolan Lehmann)	President and Director (principal financial and accounting officer)	February 29, 1996
/S/SAM P. DOUGLASS (Sam P. Douglass)	Chairman of the Board and Chief Executive Officer (principal executive officer)	February 29, 1996

-50-

INDEX TO EXHIBITS

3. Articles of Incorporation and by-laws PAGE

- (a) Restated Certificate of Incorporation of the Fund dated March 4, 1992. [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

- (c) Amended and Restated Bylaws of the Fund.....52
10. Material Contracts
- (a) Form of Management Agreement between the Fund and Equus Capital Management Corporation. [Form N-14, Exhibit 6(c) to the Registration Statement file number 33-60118]
- (b) Form of Sub-Adviser Agreement between Equus Capital Management Corporation and Equus Capital Corporation. [Form N-14, Exhibit 5(c) to the Registration Statement, file number 33-42621]
- (c) Agreement and Plan of Merger dated March 26, 1993 [Form N-14, Exhibit A to the Joint Proxy Statement and Prospectus, file number 33- 60118]
- (d) First Amendment to Agreement and Plan of Merger, dated May 5, 1993 [Form N-14, Exhibit B to the Registration Statement, file number 33- 60118]
- (e) Second Amendment to Agreement and Plan of Merger, dated June 15, 1993 [Exhibit 10(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993]
- (f) Form of Safekeeping Agreement with Southwest Guaranty Trust Company. [Form N-14, exhibit 6 to the Registration Statement, file number 33-42621]

-51-

EX-3.A

2  
AMENDED AND RESTATED BYLAWS

AMENDED AND RESTATED BY-LAWS

OF

EQUUS II INCORPORATED

ARTICLE I

OFFICES

SECTION 1.1. REGISTERED OFFICE. The registered office of the Corporation required by the General Corporation Law of the State of Delaware to be maintained in the State of Delaware shall be the registered office named in the original Certificate of Incorporation of the Corporation, or such other office as may be designated from time to time by the Board of Directors in the manner provided by law. Should the Corporation maintain a principal office or place of business within the State of Delaware, such registered office need not be identical to such principal office or place of business of the Corporation.

SECTION 1.2. OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 2.1. PLACE OF MEETINGS. All meetings of the stockholders shall be held at the principal office of the Corporation, or at such other place either within or without the State of Delaware and at such date and time as shall be designated from time to time by the Board of Directors and stated in the notice or waivers of notice of the meeting.

SECTION 2.2 VOTING LIST. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order for each class of stock, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be opened to the examination of any stockholder, for any purpose germane to the meeting, during ordinary

business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 2.3. ANNUAL MEETINGS. An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, within or without the State of Delaware, on such date, and at such time as the Board of Directors shall fix each year and set forth in the notice of the meeting, which date shall be within 13 months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

SECTION 2.4. SPECIAL MEETING. Special meetings of the stockholders, for any purpose

-1-

or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation may be called by the Chairman of the Board (if any), by the Chief Executive Officer, or by the Board of Directors, but such special meetings may not be called by any other person or persons. The Chairman, Chief Executive Officer, or Board so calling any such meeting shall fix the date and time of, and the place (either within or without the State of Delaware) for, the meeting.

SECTION 2.5. NOTICE OF MEETING. Written notice of the annual, and each special meeting of stockholders, stating the place, date and hour and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote thereat, not less than ten nor more than 60 days before the meeting. Such notice may be delivered either personally or by mail. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

SECTION 2.6. QUORUM. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at any meeting of stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Notwithstanding the other provisions of the Certificate of Incorporation or these By-laws, the chairman of the meeting or the holders of a majority of the shares of stock, present in person or represented by proxy, although not constituting a quorum, shall have the power to postpone or recess the meeting from time to time, without notice other than announcement at the meeting of the date, time, and place of the postponed or recessed meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 2.7. VOTING. When a quorum is present at any meeting of the stockholders, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the statutes, of the Certificate of Incorporation or of these by-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Where a separate vote by class is required, the affirmative vote of the majority of shares of such class present in person or represented by proxy at the meeting shall be the act of such class. Every stockholder having the right to vote at a meeting of stockholders or to express consent or dissent to a corporate action in writing without a meeting shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder, bearing a date not more than three years prior to voting, unless such instrument provides for a longer period, and filed with the Secretary of the Corporation, or such other officer as the Board of Directors may from time to time determine by resolution, before, or at the time of, the meeting.

All proxies shall be received and taken charge of and all ballots shall be received and canvassed by the secretary of the meeting who shall decide all questions touching upon the qualification of voters, the validity of the proxies, and the acceptance or rejection of votes, unless an inspector or inspectors shall have been appointed by the chairman of the meeting, in which event such inspector or inspectors shall decide all such questions. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power.

-2-

NO HARD COPY FOR THIS PAGE??

If such instrument shall designate two or more persons to act as proxies, unless such instrument shall provide the contrary, a majority of such persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting or giving consents thereby conferred, or if only one be present, then such powers may be exercised by that one, or, if an even number attend and a majority do not agree on any particular issue, each proxy so attending shall be entitled to exercise such powers in respect of the

same portion of the shares as he is of the proxies representing such shares.

SECTION 2.8. CONSENT OF STOCKHOLDERS. Unless otherwise provided in the Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the Corporation or any action which may be taken at any annual or special meeting of such stockholders, other than matters that are required by the Investment Company Act of 1940 (the "Investment Company Act") to be considered at meetings held in person, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given by the Secretary of the Corporation to those stockholders who have not consented in writing.

SECTION 2.9. VOTING OF STOCK OF CERTAIN HOLDERS; ELECTIONS; INSPECTORS. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxy as the by-laws of such corporation may prescribe, or in the absence of such provision, as the Board of Directors of such corporation may determine. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of such fiduciary. Shares standing in the name of a receiver may be voted by such receiver. A stockholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation, he has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent the stock and vote thereon.

If shares or other securities having voting power stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary of the Corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

- (a) If only one votes, his act binds all;
- (b) If more than one vote, the act of the majority so voting binds all;
- (c) If more than one vote, but the vote is evenly split on any particular matter, each fraction may vote the securities in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to the Court of Chancery or such other court as may have jurisdiction to appoint an additional person to act with the persons so voting the shares, which shall then be voted as determined by a majority of such persons and the person appointed by the Court. If the instrument so filed shows that any such tenancy is held in unequal interests, a

-3-

majority or even-split for the purpose of this subsection shall be a majority of even-split in interest.

All voting, except as required by the Certificate of Incorporation or where otherwise required by law, may be by a voice vote; provided, however, that upon demand therefor by stockholders holding a majority of the issued and outstanding stock present in person or by proxy at any meeting a stock vote shall be taken. Every stock vote shall be taken by written ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. All elections of directors shall be by ballot, unless otherwise provided in the Certificate of Incorporation.

At any meeting at which a vote is taken by ballots, the chairman of the meeting may appoint one or more inspectors, each of whom shall subscribe an oath or affirmation to execute faithfully the duties of inspector at such meeting with strict impartiality and according to the best of his ability. Such inspector shall receive the ballots, count the votes and make and sign a certificate of the result thereof. The chairman of the meeting may appoint any person to serve as inspector, except no candidate for the office of director shall be appointed as inspector.

Unless otherwise provided in the Certificate of Incorporation, cumulative voting for the election of directors shall be prohibited.

SECTION 2.10. CONDUCT OF MEETING. The meetings of the stockholders shall be presided over by the Chairman of the Board (if any), or if he is not present, by the Chief Executive Officer, or if neither the Chairman of the Board (if any), nor Chief Executive Officer is present, by a chairman elected at the meeting. The Secretary of the Corporation, if present, shall act as secretary of such meetings, or if he is not present, an Assistant Secretary shall so act; if neither the Secretary nor an Assistant Secretary is present, then a secretary shall be appointed by the chairman of the meeting. The chairman of any meeting of stockholders shall determine the order of business and the



procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him in order. Unless the chairman of the meeting of stockholders shall otherwise determine, the order of business shall be as follows:

- (d) Calling of meeting to order.
- (e) Election of a chairman and the appointment of a secretary if necessary.
- (f) Presentation of proof of the due calling of the meeting.
- (g) Presentation and examination of proxies and determination of a quorum.
- (h) Reading and settlement of the minutes of the previous meeting.
- (i) Reports of officers and committees.
- (j) The election of directors if an annual meeting, or a meeting called for that purpose.
- (k) Unfinished business.
- (l) New business.

-4-

NO HARD COPY FOR THIS PAGE??

- (m) Adjournment.

SECTION 2.11. TREASURY STOCK. The Corporation shall not vote, directly or indirectly, shares of its own stock owned by it; and such shares shall not be counted in determining the total number of outstanding shares.

SECTION(1) 2.12. FIXING RECORD DATE. The Board of Directors may fix in advance a date, not exceeding 60 days preceding the date of any meeting of stockholders or any adjournment there of, or the date for payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change, or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining express consent to corporate action in writing without a meeting, as a record date for the determination of the stockholders entitled to notice of or to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, any such meeting and any adjournment thereof, or to receive payment of such dividends or distribution, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record dated fixed as aforesaid. With respect to a meeting of stockholders, the record date shall not be less than ten days before the date of such meeting.

If the Board of Directors does not fix a record date for any meeting of the stockholders, the record date for determining stockholders entitled to notice of or to vote at such meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if in accordance with Section 5.2 of these bylaws notice is waived, at the close of business on the day next preceding the day on which the meeting is held. If, in accordance with Section 2.8 of this Article II, corporate action without a meeting of stockholders is to be taken, the record date for determining stockholders entitled to express consent to such corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 2.13. MERGER, SALE OF ASSETS, DISSOLUTION, AMENDMENT OF CERTIFICATE OF INCORPORATION AND BY-LAWS, ETC. Notwithstanding any provision of the Certificate of Incorporation of the Corporation or any other provision of these By-laws, the affirmative vote or consent of the holders of a majority of all of the issued and outstanding Common Stock of the Corporation shall be required:

- (n) for a merger or consolidation of the Corporation with or into any other corporation if the Corporation is not the surviving corporation,
- (o) for any sale or lease of all or any substantial part of the assets of the Corporation to any other corporation, person or entity,
- (p) to dissolve the Corporation, or
- (q) to amend, alter, change or repeal, directly or indirectly, the Certificate of

Incorporation of the Corporation or Sections 2.13 or 3.2 of these by-laws.

Such affirmative vote or consent shall be in addition to the vote or consent of the holders of any class or series of stock of the Corporation otherwise required by the General Corporation Law, the Certificate of Incorporation or these by-laws or the resolution or resolutions providing for the issuance of such class or series which have or may be adopted by the Board of Directors of the Corporation.

SECTION 2.14 ROLL-UP. In connection with a proposed Roll-up (as hereinafter defined), the Corporation shall offer to stockholders who vote against the proposed Roll-up the choice of:

- (a) accepting the securities of the Roll-up Entity (as hereinafter defined) offered in the proposed Roll-up; or
- (b) one of the following: (i) remaining as a stockholder in the Corporation and preserving their interests therein on the same terms and conditions as existed previously; or (ii) receiving cash in an amount equal to the appraised value of the net assets of the Corporation.

For purposes of this Section 2.14, the term "Roll-up" shall mean a transaction involving the acquisition, merger, conversion, or consolidation, either directly or indirectly, of the Corporation and the issuance of securities of a Roll-up Entity; provided, however, that such term does not include:

- (a) a transaction involving securities of the Corporation that have been listed for at least 12 months on a national securities exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or
- (b) a transaction involving the conversion to corporate, partnership, trust or association form of only the Corporation if, as a consequence of the transaction, there will be no significant adverse change in any of the following: (i) stockholders' voting rights, (ii) the term of existence of the Corporation, (iii) the aggregate management and advisory fees paid by the Corporation, or (iv) the Corporation's investment objectives.

For purposes of this Section 2.14, the term "Roll-up Entity" shall mean a partnership, real estate investment trust, corporation, trust, or other entity that would be created or would survive after the successful completion of a proposed Roll-up.

SECTION 2.15 STOCKHOLDER PROPOSALS. At an annual or special meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual or special meeting business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Chairman of the Board, the Chief Executive Officer, or the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Chairman of the Board, the Chief Executive Officer, or the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder.

No proposal by a stockholder shall be presented at an annual or special meeting of stockholders unless such stockholder shall provide the Board of Directors or the Secretary of the Corporation with timely written notice of intention to present a proposal for action at the forthcoming meeting of stockholders, which notice shall include (a) the name and address of such stockholder, (b) the number of voting securities he or she holds of record and which he or she holds beneficially, (c) the text of the proposal to be presented at the meeting, (d) a statement in support of the proposal, and (e) any material

interest of the stockholder in such proposal. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifth (5th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. Any stockholder may make any other proposal at an annual or special meeting of stockholders and the same may be discussed and considered, but unless stated in writing and filed with the Board of Directors or the Secretary prior to the date set forth above, no action with respect to such proposal shall be taken at such meeting and such proposal shall be laid over for action at an adjourned, special, or annual meeting of the stockholders taking place no earlier than 60 days after such meeting.

This provision shall not prevent the consideration and approval or disapproval at an annual meeting of reports of officers, directors, and committees; but in connection with such reports, no new business shall be acted upon at such annual meeting unless stated and filed as provided in this Section 2.15. Notwithstanding anything in the By-laws to the contrary, no business shall be conducted at any annual or special meeting except in accordance with the

procedures set forth in this Section 2.15. The Chairman of the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 2.15, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Notwithstanding any other provision of these By-laws, the Corporation shall be under no obligation to include any stockholder proposal in its proxy statement materials or otherwise present any such proposal to stockholders at a special or annual meeting of stockholders if the Board of Directors reasonably believes the proponents thereof have not complied with Sections 13 and 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, and the Corporation shall not be required to include in its proxy statement material to stockholders any stockholder proposal not required to be included in its proxy material to stockholders in accordance with such Act, rules, or regulations.

SECTION 2.16. NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the procedures of this Section 2.16 shall be eligible for election as directors. Subject to the rights of holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, nominations for the election of directors may be made by the Board of Directors or by any stockholder entitled to vote in the election of directors generally who complies with the notice procedures set forth in this Section 2.16. Any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as a director at a meeting only if timely written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by U.S. mail, first class postage prepaid, return receipt requested, to the Secretary of the Corporation.

To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifth (5th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination, (b) the name, age, business address, and home address of the person or persons to be nominated; (c) the principal occupation of the

-7-

person or persons nominated; (d) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting and intends to appear at the meeting to nominate the person or persons specified in the notice; (e) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (f) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (g) the consent of each nominee to serve as a director of the Corporation if so elected. At the request of the Board of Directors any person nominated by the Board of Directors for election as a Director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.16. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the By-laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

### ARTICLE III

#### BOARD OF DIRECTORS

SECTION 3.1. POWERS. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

SECTION 3.2. NUMBER, ELECTION AND TERM. The number of directors which shall constitute the whole Board shall be not less than three (3) nor more than fifteen (15), and at least 50% of whom shall be persons who are not interested persons of the Corporation as defined in the Investment Company Act of 1940. The number of directors may be increased or decreased from time to time by amendment to the by-laws of the Corporation, provided that no decrease in the number of directors shall have the effect of shortening the term of an incumbent director, and further provided that the number of directors shall never be less than one (1). Each director shall hold office for the term for which he is elected, and until his successor shall have been elected and qualified or until his earlier death, resignation or removal. The directors shall be elected at the annual meeting of stockholders, except as provided in Section 3.3. Unless otherwise provided in the Certificate of Incorporation,

directors need not be residents of Delaware or stockholders of the Corporation.

SECTION 3.3. VACANCIES, ADDITIONAL DIRECTORS AND REMOVAL FROM OFFICE. If any vacancy occurs in the Board of Directors caused by death, resignation, retirement, disqualification or removal from office of any director, or otherwise, or if any new directorship is created by an increase in the authorized number of directors, a majority of the directors then in office, though less than a quorum, or a sole remaining director, may choose a successor or fill the newly created directorship; and a director so chosen shall hold office until the next annual election and until his successor shall be duly elected and shall qualify, unless sooner displaced.

Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created

-8-

directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. If the directors of the Corporation are divided into classes, any directors elected to fill vacancies or newly created directorships shall hold office until the next election of the class for which such directors shall have been chosen, and until their successors shall be duly elected and shall qualify.

Any director or the entire Board of Directors may be removed, with or without cause, by the holders of at least a majority of the shares then entitled to vote at an election of directors; provided that, unless the Certificate of Incorporation otherwise provides, if the Board of Directors is elected by class or classes or series thereof, then the stockholders may effect such removal only for cause; and provided further that, if the Certificate of Incorporation expressly grants to stockholders the right to cumulate votes for the election of directors and if less than the entire board is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire Board of Directors, or, if there be classes of directors, at an election of the class of directors of which such director is a part.

SECTION 3.4. REGULAR MEETING. A regular meeting of the Board of Directors shall be held each year, without notice other than this by-law, at the place of, and immediately following, the annual meeting of stockholders if a quorum is present; and other regular meetings of the Board of Directors shall be held each year, at such time and place as the Board of Directors may provide, by resolution, either within or without the State of Delaware, without notice other than such resolution. At the first meeting of the Board of Directors in each year at which a quorum shall be present, held next after the annual meeting of stockholders, the Board of Directors shall proceed to the election of the officers of the Corporation.

SECTION 3.5. SPECIAL MEETING. A special meeting of the Board of Directors may be called by the Chairman of the Board (if any) or by the Chief Executive Officer and shall be called by the Secretary on the written request of any two directors. The Chairman or Chief Executive Officer so calling, or the directors so requesting, any such meeting shall fix the time and place, either within or without the State of Delaware, of holding such meeting.

SECTION 3.6. NOTICE OF SPECIAL MEETING. Personal written, telegraphic, cable or wireless notice of special meetings of the Board of Directors shall be given to each director at least 24 hours prior to the time of such meeting. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting, except that notice shall be given of any proposed amendment to the by-laws if it is to be adopted at any special meeting or with respect to any other matter where notice is required by statute.

SECTION 3.7. PLACE OF MEETINGS; ORDER OF BUSINESS. The directors may hold their meetings and may have an office and keep the books of the Corporation, except as otherwise provided by law, in such place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine by resolution. At all meetings of the Board of Directors business shall be transacted in such order as shall from time to time be determined by the Chairman of the Board (if any), or in his absence by the Chief Executive Officer, or by resolution of the Board of Directors.

SECTION 3.8. QUORUM AND PARTICIPATION. The presence of one-third of the entire number of directors then in office (but not less than two directors) shall constitute a quorum for the trans

-9-

action of business at any meeting of the Board of Directors, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute, by the Certificate of Incorporation or by these by-laws. Except for at meetings called for the purpose of considering matters that are required by the Investment Company Act to be considered at meetings held in person, members of the Board of Directors, may participate in a meeting of the Board of Directors or such committee, as the case may be, by means of conference telephone or similar communications equipment by means of

which all persons participating in the meeting can hear each other and such participation shall constitute presence in person and attendance at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 3.9. PRESUMPTION OF ASSENT. A director who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 3.10. ACTION WITHOUT MEETING. Unless otherwise restricted by the Certificate of Incorporation or these bylaws, or unless a matter is required by the Investment Company Act to be considered at a meeting held in person, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof as provided in Article IV of these by-laws, may be taken without a meeting, if a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of committee. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any document or instrument filed with the Secretary of State of Delaware.

SECTION 3.11. COMPENSATION. Unless otherwise restricted by the Certificate of Incorporation, the Board of Directors shall have the authority to fix the compensation of directors. No provision of these by-laws shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

SECTION 3.12. APPROVAL OR RATIFICATION OF ACTS OR CONTRACTS BY STOCKHOLDERS. The Board of Directors in its discretion may submit any act or contract for approval or ratification at any annual meeting of the stockholders, or at any special meeting of the stockholders called for the purpose of considering any such act or contract, and any act or contract that shall be approved or be ratified by the vote of the stockholders holding a majority of the issued and outstanding shares of stock of the Corporation entitled to vote and present in person or by proxy at such meeting (provided that a quorum is present), shall be as valid and as binding upon the Corporation and upon all the stockholders as if it has been approved or ratified by every stockholder of the Corporation. In addition, any such act or contract may be approved or ratified by the written consent of stockholders holding a majority of the issued and outstanding shares of capital stock of the Corporation entitled to vote and such consent shall be as valid and as binding upon the Corporation and upon all the stockholders as if it had been approved or ratified by every stockholder of the Corporation.

SECTION 3.13. ADVISORY BOARD. There may be an Advisory Board of any number of individuals appointed by the Board of Directors who may meet at stated times or on notice to all by any of their own number or by the Chief Executive Officer. The Advisory Board shall be composed of

-10-  
NO HARD COPY FOR THIS PAGE??

stockholders or representatives of stockholders. The Advisory Board will have no power to require the Corporation to take any specific action. Its purpose shall be solely to consider matters of general policy and to represent the stockholders in all matters except those involving the purchase and sale of specific securities. A majority of the Advisory Board, if appointed, must consist of stockholders who are not otherwise "affiliated" or "interested persons" of the Corporation or of any "affiliate" of the Corporation (as defined in the Investment Company Act of 1940).

ARTICLE IV

COMMITTEE OF DIRECTORS

SECTION 4.1. DESIGNATION, POWERS AND NAME. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, including, if they shall so determine, an executive committee, each such committee to consist of one or more of the directors of the Corporation. Any such designated committee shall have and may exercise such of the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation as may be provided in such resolution. Any such designated committee may authorize the seal of the Corporation to be affixed to all papers which may require it. No such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided by statute, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a

revocation of a dissolution, or amending the by-laws of the Corporation; and, unless the resolution, by-laws, or Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Such committee or committees shall have such name or names and such limitations of authority as may be determined from time to time by resolution adopted by the Board of Directors.

SECTION 4.2. AUDIT COMMITTEE. There shall be an Audit Committee of two or more directors who are not "interested persons" of the Corporation (as defined in the Investment Company Act of 1940) appointed by the Board of Directors who may meet at stated times or on notice to all by any of their own number. The Audit Committee's duties shall include reviewing both the audit and other work of the Corporation's independent accountants, recommending to the Board of Directors the independent accountants to be retained, and reviewing generally the maintenance and safekeeping of the Corporation's records and documents.

SECTION 4.3. PROCEDURE; MEETINGS; QUORUM. Any committee designated pursuant to Section 4.1 shall choose its own chairman, shall keep regular minutes of its proceedings and report the same to the Board of Directors when requested, shall fix its own rules or procedures, and shall meet at such times and at such place or places as may be provided by such rules, or by resolution of such

-11-

committee or resolution of the Board of Directors. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any resolution.

SECTION 4.4. COMPENSATION. Members of special or standing committees may be allowed compensation for attending committee meetings, if the Board of Directors shall so determine.

## ARTICLE V

### NOTICE

SECTION 5.1. METHODS OF GIVING NOTICE. Whenever under the provisions of the statutes, the Certificate of Incorporation or these by-laws, notice is required to be given to any director, member of any committee or stockholder, such notice shall be in writing and delivered personally or mailed to such director, member or stockholder; provided that in the case of a director or a member of any committee such notice may be given orally or by telephone, telegram, telegraphic, cable or wireless transmission. If mailed, notice to a director, member of a committee or stockholder shall be deemed to be given when deposited in the United States mail first class in a sealed envelope, with postage therein prepaid, addressed, in the case of a stockholder, to the stockholder at the stockholder's address as it appears on the records of the corporation or, in the case of a director or a member of a committee, to such person at his business address. If sent by telegram, notice to a director or member of a committee shall be deemed to be given when the telegram, so addressed, is delivered to the telegraph company. Notice shall be deemed to have been given on the date of any telegraphic, cable or wireless transmission.

SECTION 5.2. WRITTEN WAIVER. Whenever any notice is required to be given under the provisions of the statutes, the Certificate of Incorporation or these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or the by-laws.

## ARTICLE VI

### OFFICERS

SECTION 6.1. OFFICERS. The officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, any one or more of which may be designated Executive Vice President or Senior Vice President, a Secretary, a Treasurer, and such other officers as the Board of Directors may elect or appoint. The Board of Directors may appoint such other officers and gents, including Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers, as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined by the Board. Any two or more offices, may be held by the same person unless the Certificate of Incorporation provides otherwise. No officer shall execute, acknowledge, verify or countersign

any instrument on behalf of the Corporation in more than one capacity, if such instrument is required by law, by these by-laws or by any act of the Corporation

-12-

to be executed, acknowledged, verified or countersigned by two or more officers. The Chairman of the Board shall be elected from among the directors. With the foregoing exceptions, none of the other officers need be a director, and none of the officers need be a stockholder of the Corporation.

SECTION 6.2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected annually by the Board of Directors at its first regular meeting held after the annual meeting of stockholders or as soon thereafter as conveniently possible. Each officer shall hold office until his successor shall have been chosen and shall have qualified or until his death or the effective date of his resignation or removal, or until he shall cease to be a director in the case of the Chairman and Vice Chairman.

SECTION 6.3. REMOVAL AND RESIGNATION. Any officer or agent elected or appointed by the Board of Directors may be removed, with or without cause, by the affirmative vote of a majority of the Board of Directors whenever, in its judgment, the best interests of the Corporation shall be served thereby, but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Any officer may resign at any time by giving written notice to the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6.4. VACANCIES. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 6.5. SALARIES. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors or pursuant to its direction; no officer shall be prevented from receiving such salary by reason of his also being a director.

SECTION 6.6. CHAIRMAN OF THE BOARD. The Chairman of the Board (if such office is created by the Board) shall preside at all meetings of the Board of Directors or of the stockholders of the Corporation. In the Chairman's absence, such duties shall be attended to by the Chief Executive Officer. The Chairman shall formulate and submit to the Board of Directors or the executive committee (if any) matters of general policy of the Corporation and shall perform such other duties as usually appertain to the office or as may be prescribed by the Board of Directors or the executive committee.

SECTION 6.7. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall be the chief executive officer of the corporation and, subject to the control of the Board of Directors, shall in general manage, supervise and control the properties, business and affairs of the Corporation with all such powers as may be reasonably incident to such responsibilities. Unless the Board of Directors otherwise determines, the Chief Executive Officer shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness and other obligations in the name of the Corporation. In the absence of the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the Stockholders and (should he be a director) of the Board of Directors. He may also preside at any such meeting attended by the Chairman of the Board if he is so designated by the Chairman. He shall have the power to appoint and remove subordinate officers, agents and employees, except those elected or appointed by the Board of Directors. The Chief Executive Officer shall keep the Board of Directors and the Executive Committee fully informed and shall consult them concerning the business of the Corporation. He may sign with the Secretary or any other officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation and any deeds, bonds, mortgages, contracts, checks, notes, drafts or other instruments which the Board of Directors has authorized to be executed,

-13-

except in cases where the signing and execution thereof has been expressly delegated by these by-laws or by the Board of Directors to some other officer or agent of the Corporation, or shall be required by law to be otherwise executed. He shall vote, or give a proxy to any other officer of the Corporation to vote all shares of stock of any other corporation standing in the name of the Corporation and shall exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation and in general he shall perform all other duties normally incident to the office of Chief Executive Officer and such other duties, and shall have such other powers, as may be prescribed by the stockholders, the Board of Directors or the Executive Committee (if any) from time to time.

SECTION 6.8. PRESIDENT. In the absence of the Chief Executive Officer, or in the event of his inability or refusal to act, the President shall perform the duties and exercise the powers of the Chief Executive Officer, and when so acting shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. The President may sign, with the Secretary or Assistant Secretary, certificates for shares of the Corporation. The President shall perform such other duties, and shall have such other powers, as from time to time may be assigned to him by the Chief Executive Officer, the Board of Directors or the executive committee (if any).

SECTION 6.8. VICE PRESIDENTS. In the absence of the President,

or in the event of his inability or refusal to act, the Executive Vice President (or in the event there shall be no Vice President designated Executive Vice President, any Vice President designated by the Board) shall perform the duties and exercise the powers of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President. In the absence of a designation by the Board of Directors of a Vice President to perform the duties of the President, or in the event of his absence or inability or refusal to act, the Vice President who is present and who is senior in terms of time as a Vice President of the Corporation shall so act. Any Vice President may sign, with the Secretary or Assistant Secretary, certificates for shares of the Corporation. The Vice President shall perform such other duties, and shall have such other powers, as from time to time may be assigned to them by the President, the Board of Directors or the executive committee (if any).

SECTION 6.9. SECRETARY. The Secretary shall (a) keep the minutes of the meetings of the stockholders, the Board of Directors and committees of directors; (b) see that all notices are duly given in accordance with the provisions of these by-laws and as required by law; (c) be custodian of the corporate records and of the seal of the Corporation, and see that the seal of the Corporation or a facsimile thereof is affixed to all certificates for shares prior to the issue thereof and to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these by-laws and attest the affixation of the seal of the Corporation thereto; (d) keep or cause to be kept a register of the post office address of each stockholder which shall be furnished by such stockholder; (e) sign with the Chief Executive Officer, the President, or an Executive Vice President or Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the Corporation; and (g) in general, perform all duties normally incident to the office of Secretary and such other duties, and shall have such other powers, as from time to time may be assigned to him by the President, the Board of Directors or the executive committee (if any).

SECTION 6.10. TREASURER. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. He shall (a) have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any source whatsoever and deposit all such moneys in the name of the Corporation in

-14-

such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Section 7.3 of these bylaws; (b) prepare, or cause to be prepared, for submission at each regular meeting of the Board of Directors, at each annual meeting of the stockholders, and at such other times as may be required by the Board of Directors, the Chief Executive Officer, the President or the executive committee (if any), a statement of financial condition of the Corporation in such detail as may be required; and (c) in general, perform all the duties incident to the office of Treasurer and such other duties, and shall have such other powers, as from time to time may be assigned to him by the Chief Executive Officer, the President, the Board of Directors or the executive committee (if any).

SECTION 6.11. ASSISTANT SECRETARY OR TREASURER. The Assistant Secretaries and Assistant Treasurers shall, in general, perform such duties and have such powers as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the Chief Executive Officer, the President, the Board of Directors or the Executive Committee. The Assistant Secretaries and Assistant Treasurers shall, in the absence or inability or refusal to act of the Secretary or Treasurer, respectively, perform all functions and duties which such absent officers may delegate, but such delegation shall not relieve the absent officer from the responsibilities and liabilities of his office. The Assistant Secretaries may sign, with the Chief Executive Officer, the President or a Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine.

SECTION 6.12. SURETY BONDS. The Board of Directors may require any officer or agent of the Corporation to execute a bond (including, without limitation, any bond required by the Investment Company Act of 1940, as amended, and the rules and regulations of the Securities and Exchange Commission) to the Corporation in such sum and with such surety or sureties as the Board of Directors may determine, conditioned upon the faithful performance of his duties to the Corporation, including responsibility for negligence and for the accounting of any of the Corporation's property, funds or securities that may come into his hands.

## ARTICLE VII

### CONTRACTS, CHECKS AND DEPOSITS

SECTION 7.1. CONTRACTS. Subject to the provisions of Section 6.1, the Board of Directors may authorize any officer, officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.



SECTION 7.2. CHECKS, ETC. All checks, demands, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers or such agent or agents of the Corporation, and in such manner, as shall be determined by the Board of Directors.

SECTION 7.3. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

-15-

NO HARD COPY FOR THIS PAGE??

ARTICLE VIII

CERTIFICATES OF STOCK

SECTION 8.1. ISSUANCE. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution that some or all classes or series of the Corporation's stock may be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to a certificate or certificates showing the number of shares of stock registered in his name on the books of the Corporation. The certificates shall be in such form as may be determined by the Board of Directors, shall be issued in numerical order and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares (and if the stock of the Corporation shall be divided into classes or series, the class or series of such shares) and shall be signed by the Chief Executive Officer, the President or a Vice President and by the Secretary or an Assistant Secretary. Any of or all of the signatures on the certificate may be facsimiles. The stock record books and the blank stock certificate books shall be kept by the Secretary, or at the office of such transfer agent or transfer agents as the Board of Directors may from time to time by resolution determine. In case any officer, transfer agent or registrar who shall have signed or whose facsimile signature or signatures shall have been placed upon any such certificate or certificates shall have ceased to be such officer, transfer agent or registrar before such certificate is issued by the Corporation, such certificate may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class of stock; provided that, except as otherwise provided by statute, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance of transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this Section 8.1 or otherwise required by statute or with respect to this Section 8.1 a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

All certificates surrendered to the corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in the case of a lost, stolen, destroyed or mutilated certificate a new one may be issued therefor upon such terms and with such indemnity, if any, to the Corporation as the Board of Directors may prescribe. Certificates shall not be issued representing fractional shares of stock.

-16-

SECTION 8.2. LOST CERTIFICATES. The Board of Directors may direct a new certificate of stock or uncertificated shares to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as it shall require or to give the Corporation a bond in such sum as it may deem sufficient to indemnify it against any claim that may be made against the Corporation on account of the alleged loss, theft or destructions of any such certificate or

the issuance of such new certificate or uncertificated shares, or both.

SECTION 8.3. TRANSFERS. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and register the transaction upon its books. Upon presentation to the Corporation or the transfer agent of the Corporation of an instruction with a request to transfer, pledge or release an uncertificated share or shares, it shall be the duty of the Corporation to register the transfer, pledge or release upon its books, and shall provide the registered owner with such notices as may be required by law. Transfers of shares shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney and filed with the Secretary of the Corporation or the transfer agent.

SECTION 8.4. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to treat the registered owner of any share or shares of stock whether certificated or uncertificated as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

SECTION 8.5. REGULATIONS REGARDING CERTIFICATES. The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of capital stock of the Corporation.

#### ARTICLE IX

##### DIVIDENDS

SECTION 9.1. DECLARATION. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of capital stock, subject to the provisions of the Certificate of Incorporation.

SECTION 9.2. RESERVE. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserve in the manner in which it was created.

-17-

NO HARD COPY FOR THIS PAGE??

#### ARTICLE X

##### INDEMNIFICATION

SECTION 10.1. THIRD PARTY ACTIONS. Subject to any limitation imposed by the Investment Company Act of 1940, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit, or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful except that (i) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for bad faith, negligence, willful misconduct or breach of fiduciary duty in the performance of his duty to the Corporation unless and only to the extent the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper, and (ii) no such person shall be entitled to indemnification in connection with any lawsuit in which the violation of any federal or state securities laws is alleged unless (a) if such person is successful in defending against such lawsuit, a court approves indemnification for the costs of such defense or (b) if the lawsuit is settled, a court approves the settlement and finds that indemnification for the settlement costs and expenses related to the lawsuit should be made. The satisfaction of any indemnification hereunder shall be limited to Corporation assets. The termination of any action, suit or proceeding by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and

with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

#### SECTION 10.2. ACTIONS BY OR IN THE RIGHT OF THE CORPORATION.

Subject to any limitation imposed by the Investment Company Act of 1940, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for bad faith, negligence, willful misconduct or breach of his fiduciary duty in the performance of his duty to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

-18-

#### SECTION 10.3. SUCCESS ON THE MERITS.

To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 10.1 and 10.2, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

#### SECTION 10.4. DETERMINATION OF CONDUCT.

The determination that an officer, director, employee or agent, has met the applicable standard of conduct set forth in Sections 10.1 and 10.2 (unless indemnification is ordered by a court) shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such quorum is not obtainable, or even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

#### SECTION 10.5. PAYMENT OF EXPENSES IN ADVANCE.

Expenses incurred by an officer or director in defending a civil or criminal action, suite or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as authorized in this Article X, provided that at least one of the following conditions precedent has occurred in the specific case: (1) the officer or director has provided security for his undertaking; (2) the Corporation is insured against losses arising by reason of lawful advances; or (3) a majority of a quorum of the disinterested non-party directors of the Corporation or an independent legal counsel in a written opinion, shall determine, based upon a review of readily available facts, that there is reason to believe that such officer or director ultimately will be found entitled to indemnification. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

#### SECTION 10.6. INDEMNITY NOT EXCLUSIVE.

The indemnification provided hereunder shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any other by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. The Board of Directors shall also have the authority to authorize the Corporation making advances with respect to and indemnifying any person named in Sections 10.1 and 10.2 against, or making payments on behalf of or to reimburse such person for, any costs or expenses (including attorneys' fees), judgments or fines or amounts paid in settlement, in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative as set forth in Sections 10.1 to 10.2 to the extent not inconsistent with law as evidenced by an opinion of counsel.

#### SECTION 10.7. INSURANCE.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article X of the by-laws; provided, however, that the Corporation may not purchase and maintain insurance that will protect or purport to protect any person against any liability for willful misfeasance, bad faith, gross negligence or reckless disregard of duty.

-19-

#### SECTION 10.8. DEFINITIONS.

For purposes of this Article X, reference to the "Corporation" shall include, in addition to the resulting

corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence has continued, would have had power and authority to indemnify its directors, officers and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article X with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

For purposes of this Article X, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article X.

## ARTICLE XI

### MISCELLANEOUS

SECTION 11.1. SEAL. The Board of Directors may provide a suitable seal, containing the name of the corporation, and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

SECTION 11.2. BOOKS. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors.

SECTION 11.3. FISCAL YEAR. The fiscal year of the Corporation shall be such as established from time to time by the Board of Directors.

SECTION 11.4. RESIGNATIONS. Any director, member of a committee or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of its receipt by the Chief Executive Officer or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

SECTION 11.5. FACSIMILE SIGNATURES. In addition to the provisions for the use of facsimile signatures elsewhere specifically authorized in these by-laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors.

SECTION 11.6. RELIANCE UPON BOOKS, REPORTS AND RECORDS. Each director and each member of any committee designated by the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or reports made to the Corporation

by any of its officers, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or by any such committee, or in relying in good faith upon other records of the Corporation.

### SECTION 11.7. ACCOUNTANT.

(a) The Corporation shall employ an independent public accountant or a firm of independent public accountants as its Accountant to examine the accounts of the Corporation and to sign and certify financial statements filed by the Corporation. The Accountant's certificates and reports shall be addressed both to the Board of Directors and to the stockholders. The employment of the Accountant shall be conditioned upon the right of the Corporation to terminate the employment forthwith without any penalty by vote of a majority of the outstanding voting securities at any stockholders' meeting called for that purpose.

(b) A majority of the members of the Board of Directors who are not "interested persons" (as defined in the Investment Company Act of 1940) of the Corporation shall select the Accountant at any meeting held within 30 days before or after the beginning of the fiscal year or before the annual stockholders' meeting in that year. Such selection shall be submitted for ratification or rejection at the next succeeding annual stockholders' meeting, if held. If such meeting shall reject such selection, the Accountant shall be selected by majority vote of the Corporation's outstanding voting securities, either at the meeting at which the rejection occurred or at a subsequent meeting of stockholders called for that purpose.

(c) Any vacancy occurring between annual meetings, due to the resignation of the Accountant, may be filled by the vote of a majority of the members of the Board of Directors who are not "interested persons."

SECTION 11.8 ACCESS TO RECORDS. Every stockholder of the Corporation shall have access to the records of the Corporation and may inspect and copy any of them during the usual hours for business for any proper purpose. An alphabetical list of the names and addresses of the stockholders of the Corporation along with the number of shares held by each of them (the "Stockholder List") shall be maintained as a part of the books and records of the Corporation and shall be available for inspection by any stockholder or its designated agent at the home office of the Corporation upon the request of a stockholder. The Stockholder List shall be updated at least quarterly to reflect changes in the information contained therein. A copy of the Stockholder List shall be mailed to any stockholder requesting the Stockholder List within ten days of the request. The copy of the Stockholder List shall be printed in alphabetical order, on white paper, and in a readily readable type size (in no event smaller than 10-point type). A reasonable charge for copy work may be charged by the Corporation. The purpose for which a stockholder may request a copy of the Stockholder List include, without limitation, matters relating to stockholders' voting rights and the exercise of stockholders' rights under federal proxy laws. If the Corporation neglects or refuses to exhibit, produce, or mail a copy of the Stockholder List as requested, the Corporation shall be liable to any stockholder requesting the List for the costs, including attorney's fees, incurred by the stockholder for compelling the production of the Stockholder List, and for actual damages suffered by any stockholder by reason of such refusal or neglect. It shall be a defense to any claim by a stockholder that the actual purpose and reason for the request for inspection or for a copy of the Stockholder List is to secure the Stockholder List or other information for the purpose of selling such list or copies thereof, or of using the same for a commercial purpose other than in the interest of the stockholder as a stockholder of the Corporation relative to the affairs of the Corporation. The Corporation may require a stockholder requesting the Stockholder List to represent that the List is not requested for

-20-

a commercial purpose unrelated to the stockholder's interest in the Corporation. The remedies provided hereunder to stockholders requesting copies of the Stockholder List are in addition to, and shall not in any way limit, other remedies available to stockholders under federal law or Delaware law.

#### ARTICLE XII

##### AMENDMENT

If provided in the Certificate of Incorporation of the Corporation, the Board of Directors shall have the power to adopt, amend and repeal from time to time by-laws of the Corporation, subject to the right of the stockholders entitled to vote with respect thereto to amend or repeal such by-laws as adopted or amended by the Board of Directors and to the provisions of 2.13 hereof.

[Amended and Restated as of 2/21/96]

c:JTU\296\EQUUS\Equus.byl

-21-

EX-27

3

#### FINANCIAL DATA SCHEDULE

5

THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

12-MOS	
DEC-31-1995	
DEC-31-1995	
60,239,861	
71,610,360	
527,265	
0	
0	
132,450,176	
0	0
0	
132,450,176	
70,596,887	
0	0
0	
0	
61,853,289	
0	
132,450,176	
0	0
9,463,209	
0	0
0	
3,425,300	

0  
318,048  
0  
0  
0  
0  
0  
0  
5,719,861  
1.93  
1.93