

Risk Factors Comparison 2025-04-10 to 2024-04-02 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline and you may lose all or part of your investment. Risks Related to Our Investments Investments in small capitalization companies present certain risks that may not exist to the same degree as investments in larger, more established companies and will cause such investments to be volatile and speculative. We have invested and may continue to invest, in private, small and / or new companies that may be in their early stages of development. Investments in these types of companies involve a number of significant risks, including the following:

- They typically have shorter operating histories, narrower product lines and smaller market shares than public companies, which tend to render them more vulnerable to competitors' actions and market conditions as well as general economic downturns;
- They may have no earnings or experienced losses or may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;
- They are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse effect on their business and prospects and, in turn, on our investment;
- They may have difficulty accessing the capital markets to meet future capital needs;
- They generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
- Generally little public information exists regarding these companies, and investors in these companies generally must rely on the ability of the equity sponsor to obtain adequate information for the purposes of evaluating potential returns and making a fully informed investment decision.

12 TableOfContents ~~12 There~~ **There** is uncertainty regarding the value of our privately held securities. Our net asset value is based on the value we assign to our portfolio investments. For investments that are not listed on a securities exchange or quotation medium, we determine the value of our investments in securities for which market quotations are not available as of the end of each calendar quarter, unless there is a significant event requiring a change in valuation in the interim. Because of the inherent uncertainty of the valuation of portfolio securities that do not have readily ascertainable market values, our fair value determination may differ materially from the value that would have been used had a ready market existed for the securities. We determine the fair value of investments for which no market quotations are available based upon a methodology that we believe reaches a reasonable estimation of fair value. However, we do not necessarily apply multiple valuation metrics in reaching this determination and, in some cases, we do not obtain any third- party valuations before reaching this determination. Our determinations of the fair value of our investments have a material impact on our net earnings through the recording of unrealized appreciation or depreciation of investments as well as our assessment of interest income recognition. Our net asset value could be affected materially if our determinations of the fair value of our investments differ significantly from values based on a ready market for these securities. We depend upon Management for our future investment success. We depend upon the diligence and skill of our Management to select, structure, close and monitor our investments. Management is responsible for identifying, structuring, evaluating, monitoring, and disposing of our investments, and the services they collectively provide significantly impact our results of operations. Our future success will depend to a significant extent on the continued service and coordination of Management. Our success will depend on our ability to retain our existing Management and to recruit additional other highly qualified individuals. If we are unable to integrate new investment and management personnel, we may be unable to achieve our desired investment results. Management may not be able to implement our investment objective successfully. Our Board is taking a more opportunistic approach to our portfolio investment strategy, shifting our investment emphasis to sectors such as energy. In order to implement our investment strategy, Management must analyze, conduct due diligence, invest in, monitor and sell investment interests in industries in which many of them have not previously been involved. Also, we expect that our investment strategy will continue to require Management to investigate and monitor investments that are much more broadly dispersed geographically. In addition, Management is required to provide valuations for investments in a broader range of securities, including debt securities, which may require expertise beyond that previously required. We cannot assure investors that the overall risk of their investment in the Fund will be reduced as a result of our investment strategy. If we cannot achieve our investment objective successfully, the value of your investment in our common stock could decline substantially. We may not realize gains from our equity investments. We frequently invest in the equity securities of our portfolio companies. Also, when we make a loan, we sometimes receive warrants to acquire stock issued by the borrower. Ultimately, our goal is to sell these equity interests and realize gains. These equity interests may not appreciate and, in fact, may depreciate in value. For our present portfolio and other investments we may make in the future, the market value of our equity investments may fall below our estimate of the fair value of such investments before we sell them. Given these factors, there is a risk that we will not realize gains upon the sale of those or other investment interests that we hold. **13** Our holdings in Morgan E & P ~~and Equus Energy~~ are subject to commodity price declines endemic to oil and gas companies. The oil and gas business is fundamentally a commodity-based enterprise. This means that the operations and earnings of Morgan E & P, LLC ("Morgan") ~~and Equus Energy, LLC ("Equus Energy")~~, ~~our two remaining portfolio investments,~~ may be significantly affected by changes in prices of oil, gas and natural gas liquids. The prices of these products are also dependent upon local, regional and global events or conditions that affect supply and demand for the relevant commodity. In addition, the pricing of these commodities is highly dependent upon

technological improvements in energy production and development, energy efficiency, and seasonal weather patterns. Moreover, as a worldwide commodity, the price of oil and natural gas is also influenced by global demand, changes in currency exchange rates, interest rates, and inflation. ~~Neither Morgan~~ **does not** ~~nor Equus Energy employs~~ **employ** any hedging strategies in respect of its oil and gas holdings and is therefore subject to price fluctuations resulting from these and other factors. The operational results and financial condition of Morgan ~~and Equus Energy~~, as well as the economic attractiveness of future capital expenditures for new drilling ~~and recompletions~~, may be materially adversely affected as a result of lower oil and gas prices. We may not be able to make additional investments in our portfolio companies from time to time, which may dilute our interests in such companies. After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company, or may have the opportunity to increase our investment in that company through the exercise of a warrant to purchase common stock or through follow- on investments in the debt or equity of that company. We cannot assure you that we will make, or have sufficient funds to make, any such follow- on investments. Any decision by us not to make a follow- on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of investment and may result in a missed opportunity for us to increase our participation in a successful operation. A decision not to make a follow- on investment may also require us to subordinate our debt interest to a new lender or dilute our equity interest in, or reduce the expected yield on, our investment. We have invested in a limited number of portfolio companies. The Fund is classified as a “ non- diversified ” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. As a matter of policy, we generally have not initially invested more than 25 % of the value of our net assets in a single portfolio company. However, we would expect that any new investments may exceed this percentage for the immediate future. Moreover, follow- on investments, disproportionate increases or decreases in the fair value of certain portfolio companies or sales of investments may result in more than 25 % of our net assets being invested in a single portfolio company at a particular time. A consequence of a limited number of investments is that changes in business or industry trends or in the financial condition, results of operations or the market’ s assessment of any single portfolio company will affect our net asset value and the market price of our common stock to a greater extent than would be the case if we were a “ diversified ” company holding a greater number of investments. 14 The lack of liquidity of our privately held securities may adversely affect our business. Our portfolio investments consist principally of securities that are subject to restrictions on sale because they are not listed or publicly traded securities. If any of these securities were to become publicly traded, our ability to sell them may still be restricted because we acquired them from the issuer in “ private placement ” transactions or because we may be deemed to be an affiliate of the issuer. We will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act and applicable state securities laws, unless an exemption from such registration requirements is available. In addition, contractual or practical limitations may restrict our ability to liquidate our securities in portfolio companies because those securities are privately held and we may own a relatively large percentage of the issuer’ s outstanding securities. Sales also may be limited by market conditions, which may be unfavorable for sales of securities of particular issuers or generally. The illiquidity of our investments may preclude or delay any disposition of such securities, which may make it difficult for us to obtain cash equal to the value at which we record our investments if the need arises. In situations where we hold junior priority liens, our ability to control decisions with respect to our portfolio companies may be limited by lenders holding superior liens. In a default scenario, the value of collateral may be insufficient to repay us after the senior priority lenders are paid in full. We may make certain loans to portfolio companies that are secured by a junior priority security interest in the same collateral pledged to secure debt owed to lenders with liens senior to ours. Often, the senior lender has procured covenants from the portfolio company prohibiting the incurrence of additional secured debt without the senior lender’ s consent. As a condition of permitting the portfolio company to incur junior secured indebtedness, the senior lender will require that we, as junior lender, enter into an intercreditor agreement that, among other things, will establish the senior lender’ s right to control the disposition of any collateral in the event of an insolvency proceeding or other default situation. In addition, intercreditor agreements generally will expressly subordinate junior liens to senior liens as well as the repayment of junior debt to senior debt. Because of the control we may cede to senior lenders under intercreditor agreements, we may be unable to control the manner or timing of collateral disposition. In addition, the value of collateral securing our debt investment will ultimately depend on market and economic conditions at the time of disposal, the availability of buyers and other factors. Therefore, we cannot assure you that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by our liens. There is also a risk that such collateral securing our investments will be difficult to sell in a timely manner or to appraise. If the proceeds of the collateral are insufficient to repay our loans, then we will have an unsecured claim to the extent of the deficiency against any of the company’ s remaining assets, which claim will likely be shared with many other unsecured creditors. As a debt or minority equity investor in a portfolio company, we may have little direct influence over the entity. The stockholders and management of the portfolio company may make decisions that could decrease the value of our portfolio holdings. We may make both debt and minority equity investments. Should a portfolio company make business decisions with which we disagree, of the stockholders and management of that company take risks or otherwise act in ways that do not serve our interests, the value of our portfolio holdings could decrease and have an adverse effect on our financial position and results of operations. We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies. We may structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company’ s business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration

in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay dividends, could adversely affect our results of operation and financial condition and cause the loss of all or part of your investment. 15 We expect to have limited public information regarding the companies in which we may invest. Our portfolio consists entirely of securities issued by privately-held companies. There is generally little or no publicly available information about such companies, and we must rely on the diligence of Management to obtain the information necessary for our decision to invest in them and in order to monitor them effectively. We cannot assure you that such diligence efforts will uncover all material information about such privately held businesses necessary to make fully informed investment decisions. Our prospective portfolio companies may be highly leveraged. Investments in leveraged buyouts and in highly leveraged companies involve a high degree of business and financial risk and can result in substantial losses. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used. The use of leverage by portfolio companies also magnifies the increase or decrease in the value of our investment as compared to the overall change in the enterprise value of a portfolio company. Some of our portfolio companies have incurred substantial debt in relation to their equity capital. Such indebtedness generally has a term that will require that the balance of the loan be refinanced when it matures. If a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its debt or is not successful in refinancing the debt upon its maturity, our investment could be reduced or eliminated through foreclosure on the portfolio company's assets or by the portfolio company's reorganization or bankruptcy. A substantial portion of the debt incurred by portfolio companies may bear interest at rates that fluctuate in accordance with a stated interest rate index or the prime lending rate. The cash flow of a portfolio company may not be sufficient to meet increases in interest payments on its debt. Accordingly, the profitability of our portfolio companies, as well as the value of our investments in such companies, will depend significantly upon prevailing interest rates. An increase in prevailing interest rates may have an adverse effect on the ability of our portfolio companies to service their floating rate debt and on their profits. Leverage may impair the ability of our portfolio companies to finance their future operations and capital needs. As a result, the ability of our portfolio companies to respond to changing business and economic conditions and to business opportunities may be limited. Our business depends on external financing. Our business requires a substantial amount of cash to operate. We may borrow funds to pay contingencies or expenses or to make investments, **or to maintain-reinstate** our pass-through tax status as a RIC under Subchapter M of the Code. We are permitted under the 1940 Act to borrow if, immediately after the borrowing, we have an asset coverage ratio of at least 150%. That is, we may borrow an amount equal to double the fair value of our total net assets (including investments made with borrowed funds). The amount and nature of any such borrowings depend upon a number of factors over which we have no control, including general economic conditions, conditions in the financial markets and the impact of the financing on the tax treatment of our stockholders. The use of leverage, even on a short-term basis, could have the effect of magnifying increases or decreases in our net asset value. While the "spread" between the current yields on our investments and the cost of any loan would augment the return to our stockholders, if the spread narrows (because of an increase in the cost of debt or insufficient income on our investments), our net investment income, and consequently our ability to provide distributions to our stockholders, could be adversely affected. This may also render us unable to meet our obligations to our lenders, which might then require us to liquidate some or all of our investments. We cannot assure you that we would realize full value for our investments or recoup all of our capital if we needed to liquidate our portfolio investments. Many financial institutions are unwilling to lend against a portfolio of illiquid, private securities. The make-up of our portfolio has made it more difficult for us to borrow at the level and on the terms that we desire. Our borrowings have historically consisted of a revolving line of credit which has since expired, and a margin account used quarterly to enable us to achieve adequate diversification to maintain our **previous** pass-through tax status as a RIC. **We are attempting to secure liquidity through various means, including the sale of our portfolio assets, as well as debt and equity financing.** Although we believe ~~the Fund's~~ **we will be able to obtain sufficient** liquidity ~~is sufficient~~ for our operating expenses for the next twelve months, we could be wrong. If we are wrong, we would have to obtain capital from other sources to pay Fund expenses, ~~which could involve selling~~. **We may also be required to sell** our portfolio holdings at an inopportune time and at a price that may be less than would be received if such ~~holding-holdings~~ were sold in a more competitive and orderly manner. 16 The costs of borrowing money may exceed the income from the portfolio securities we purchase with the borrowed money. We will suffer a decline in net asset value if the investment performance of the additional securities purchased with borrowed money fails to cover their cost to the Fund (including any interest paid on the money borrowed). A decline in net asset value could affect our ability to make distributions on our common stock. ~~Our~~ **If we seek to requalify as a RIC and obtain pass-through tax status as a result, our** failure to distribute a sufficient portion of our net investment income and net realized capital gains could result in a loss of **such** pass-through tax status or subject us to a 4% excise tax. If the asset coverage for debt securities issued by the Fund declines to less than 150% (as a result of market fluctuations or otherwise), we may be required to sell a portion of our investments when it is disadvantageous to do so. See Management's Discussion and Analysis of Financial Condition and Results of Operations. We have had net investment losses in the past five years. We have had net investment losses in the past five years, with a net investment loss of \$ ~~4-15.06~~ million for the year ended December 31, ~~2023-2024~~. We cannot assure you that we will be able to increase our net assets or generate net investment income. If we fail to increase the Fund's net assets or generate net investment income, such failure will likely have a material adverse effect upon the Fund, our results of operation, and our financial condition. You could lose all or a substantial amount of your investment in the Fund as a result. We do not currently intend to recommence our managed distribution policy and you might not receive dividends on your shares. On March 24, 2009, we announced a suspension of our managed distribution policy and payment of quarterly dividends for an indefinite period. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund's market value per share as at the end of the preceding calendar year. We subsequently undertook certain changes in our Board and Management. These changes have been

pursued, in part, with the objective of increasing the number of attractive investment opportunities to us and revising our investment strategy to include more recurrent cash income producing investments, all of which could ultimately result in the resumption of our managed distribution policy at some time in the future. The implementation of these revisions to our investment strategy and the recurrent generation of cash income from our investments, however, cannot be guaranteed and will not occur if we complete the transformation of Equus into an operating company. If we were unable to resume our managed distribution policy and were further unable to profitably sell or otherwise dispose of our portfolio company investments, you might not receive dividends on your shares. We operate in a highly competitive market for investment opportunities. We compete with a large number of private equity funds and mezzanine funds, investment banks and other equity and non-equity-based investment funds, investment entities, foreign investors and individuals and other sources of financing, including traditional financial services companies such as commercial banks. In recent years, the number of investment vehicles seeking small capitalization investments has increased dramatically. Many of our competitors are substantially larger and have considerably greater financial resources than we do, and some may be subject to different and frequently less stringent regulation. As our portfolio size increases, we expect that some of our investments will be larger. We believe that we will face increased competition to participate in these larger transactions. These competitors may have a lower cost of funds and many have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. An economic downturn could affect our operating results. An economic downturn may have a particularly adverse effect upon small and medium-sized companies, which are our primary market for investments. During periods of volatile economic conditions, these companies often experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies also may have difficulty expanding their businesses and operations and may be unable to meet their debt service obligations or other expenses as they become due. Any of the foregoing developments could cause the value of our investments in these companies to decline. In addition, during periods of adverse economic conditions, we may have difficulty accessing financial markets, which could make it more difficult or impossible for us to obtain funding for additional investments. Any of these events could have a material adverse effect on our business, financial condition and results of operations. 17 We may experience fluctuations in our quarterly results. We may experience fluctuations in our quarterly operating results due to a number of factors, including variations in, and the timing of, the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, the ability to find and close suitable investments and general economic conditions. The volatility of our results is exacerbated by our relatively small number of investments. As a result of these factors, you should not rely on our results for any period as being indicative of performance in future periods. The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment. Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Our due diligence review with respect to a potential portfolio company typically includes, but is not limited to, a review of historical and prospective financial information including audits and budgets, on-site visits and interviews with management, employees, customers and vendors, a review of business plans and an analysis of the consistency of operations with those plans, and other research relating to the company, management, industry, markets, products and services, and competitors. Outside consultants, legal advisers, accountants and investment banks are expected to be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we are required to rely on resources available to us, including information provided by the portfolio company and, in some circumstances, third party investigations. The due diligence process may at times be subjective, including with respect to newly organized companies for which only limited information is available. Accordingly, we cannot assure you that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. We also cannot assure you that such an investigation will result in an investment being successful.

Risks Related to Our Potential Use of Leverage The use of leverage may adversely affect our performance. We may utilize leverage for the Fund or its subsidiaries by borrowing or issuing preferred stock or short-term debt securities. Borrowings and other capital generated from leverage will result in lenders and other creditors with fixed dollar claims on our assets that are superior to the claims of our common shareholders. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Leverage is generally considered a speculative investment technique. The use of leverage may cause us to sell our portfolio interests prematurely. If we remain a BDC and borrow monies for our additional portfolio investments, we may secure loans or otherwise borrow funds from conventional banks, other lending institutions, or private parties, which parties may include the sellers of the investment interests being acquired. In the event Equus defaults under any of these borrowing arrangements, our business could be adversely affected as we may be forced to sell a portion of

our investments quickly and prematurely at what may be disadvantageous prices to us in order to meet our outstanding payment obligations, the result of which would have a material adverse effect on our business, financial condition, results of operations and cash flows. 18 The use of leverage will increase our exposure to changes in market rates of interest. To date, we have not incurred leverage to acquire portfolio investments. If we begin to take on leverage to make portfolio investments, we will be subject to risks associated with the current interest rate environment and changes in interest rates will affect our cost of capital and net investment income. The use of leverage will also affect our net investment income, which will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we cannot assure you that a significant change in market interest rates would not have a material adverse effect on our net investment income.

Risks Related to Our Business and Structure Our ability to invest in private companies may be limited in certain circumstances. As noted elsewhere herein, we have previously received an authorization from our stockholders to withdraw our election to be classified as a BDC. Although this authorization has since expired, we expect to receive an additional authorization from our stockholders in the future. Accordingly, our management is currently evaluating potential transactions that would result in the transformation of Equus into an operating company instead of a BDC and the withdrawal of our BDC election within this time frame, but we may nevertheless not consummate any such transformation and remain a BDC. If we maintain our status as a BDC and do not complete the transformation to become an operating company or a permanent capital vehicle, we must not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70 % of our total assets are qualifying assets. A principal category of qualifying assets relevant to our business is securities purchased in transactions not involving any public offering from issuers that qualify as eligible portfolio companies under the 1940 Act. Investments in companies organized outside of the United States or having a principal place of business outside of the United States are also not considered eligible portfolio companies. Any failure on our part to maintain the Fund’s status as a BDC could reduce our operating flexibility. If we do not maintain the Fund’s status as a BDC and we do not complete the transformation of Equus into an operating company, we might be regulated as a closed- end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act. This could impose tighter limitations on Equus in terms of the use of leverage and transactions with affiliated entities. Such developments could correspondingly decrease our operating flexibility. **We may not continue to be currently qualified as a RIC under the Code and will be subject to corporate level income tax. As described under Regulated Investment Company Tax Status above, during the fourth quarter of 2024, we elected to not qualify as a RIC under the Code. As a result, we will be subject to regular corporate level income tax on our income and gains and will not be permitted to deduct distributions paid to our stockholders.** To remain qualified as a RIC and be entitled to the tax benefits accorded to RICs under the Code while we maintain our status as a BDC, we must meet certain income source, asset diversification and annual distribution requirements applicable to RICs. Further, we must also derive, each taxable year, at least 90 % of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or foreign currencies, or other income derived with respect to our business of investing in such stock or securities or currencies and net income from interests in certain “qualified” publicly traded partnerships. The annual distribution requirement for a RIC is satisfied if we distribute at least 90 % of our ordinary net taxable income and realized net short- term capital gains in excess of realized net long- term capital losses, if any, to our stockholders on an annual basis. As discussed above in “Our business depends on external financing,” we historically have borrowed funds necessary to make qualifying investments to satisfy the Subchapter M diversification requirements. **We undertook no borrowings during the fourth quarter of 2024. In addition, if we fail to satisfy such diversification requirements and cease to qualify as a RIC or our distributions will be taxable as dividends to the extent paid from earnings and profits. We may also cease to qualify as a RIC or be subject to income tax and / or a 4 % excise tax, if we fail to distribute a sufficient portion of our net investment income and net realized capital gains. The loss of our qualification as a RIC would have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.** 19 Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, if we continue to operate as a BDC and as a RIC, we will need additional capital to finance our growth. As noted above, inasmuch as we expect to receive a future authorization from our stockholders to withdraw our election to be classified as a BDC, such withdrawal also means that we will not operate as a RIC. Our management is currently evaluating potential transactions that would result in the transformation of Equus into an operating company and the withdrawal of our BDC election and RIC status within this time frame, but we may nevertheless not consummate any such transformative transaction and remain a BDC and continue to seek to qualify as a RIC. In order to qualify as a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, for so long as we maintain our status as a BDC, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain net long- term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our stockholders). As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 150 %. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt and require us to issue additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline. Our Board of Directors may change

our investment objective, operating policies and strategies without prior notice or stockholder approval. Our Board of Directors has the authority to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. As described above under “ Significant Developments – Authorization to Withdraw BDC Election ”, our shareholders have previously provided this authorization and may do so again in the future, although we will not withdraw our election as a BDC unless and until we have entered into a definitive agreement to effect the transformation of Equus into an operating company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, any such effects may adversely affect our business and impact our ability to make distributions. Risks Related to Our Operation as a BDC

Our ability to enter into transactions with our affiliates is restricted. As noted above, our stockholders have previously authorized our Board and Chief Executive Officer to withdraw our election to be classified as a BDC and, although this authorization has expired, we expect to receive a further authorization from our stockholders in the future. Accordingly, our management is currently evaluating potential transactions that would result in the transformation of Equus into an operating company and the withdrawal of our BDC election within this time frame, but we may nevertheless not consummate any such transformative transaction and remain a BDC. If we maintain our status as a BDC and do not complete a transformation into an operating company or a permanent capital vehicle, we will continue to be subject to the 1940 Act. As an investment company, we are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5 % or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we generally are prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain “ joint ” transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25 % of our voting securities, we are prohibited from buying or selling any security from or to such person or certain of that person’ s affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. 20

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital. Our business requires a substantial amount of additional capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as “ senior securities, ” and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 150 % after such issuance or incurrence. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 150 %. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous. Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations. To the extent we remain a BDC, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non- depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition. Risks Related to Our Plan to Transform Equus Into an Operating Company

In our efforts to pursue the transformation of Equus into an operating company, we are exploring and evaluating strategic alternatives for the Fund and we cannot assure you that we will be successful in identifying a strategic alternative, that such strategic alternative will yield additional value for our stockholders or that the process will not have an adverse impact on our business. In prior years, we announced our plan to effect the restructuring of the Fund as an operating company no longer subject to the 1940 Act, which transaction could take the form of a sale of Equus, a restructuring, a recapitalization, merger, or other business combination, or the conversion of Equus into a permanent capital vehicle. We cannot provide any assurance that the exploration of strategic alternatives will result in the identification or consummation of a transformative transaction of Equus into an operating company or permanent capital vehicle. Similarly, any strategic decision will involve risks and uncertainties, and we cannot provide any assurance that any strategic alternative, if identified, evaluated and consummated, will provide the anticipated benefits or otherwise enhance stockholder value. The process is ongoing and, although we believe we will consummate a transaction that would result in the transformation of Equus into an operating company during 2024-2025, we may be wrong. Our Board of Directors has not set a timetable for completion of the evaluation of a potential transaction. We expect to incur substantial costs associated with identifying and evaluating potential strategic alternatives incident to a transformative transaction. Any potential transaction would be dependent upon a number of factors that may be beyond our control, including, among other factors, market conditions, industry trends, the interest of third parties in our business, stockholder approval and the availability of financing to potential buyers or to Equus on reasonable terms. The process of

exploring strategic alternatives may be time consuming and disruptive to our business operations. We are also subject to other risks in connection with the uncertainty created by the strategic review process, including stock price volatility and the ability to retain qualified employees. We do not currently intend to disclose further developments with respect to this process, unless and until our Board of Directors approves a specific transaction or otherwise concludes the review of strategic alternatives. If we are unable to effectively manage the strategic review process, our business, financial condition, liquidity and results of operations could be adversely affected. 21 If we reorganize as an operating company, we will likely not ~~continue seek to qualify~~ **requalify** as a RIC under the Code. If we were to reorganize as an operating company, we would ~~lose~~ **not seek to reinstate** our status as a RIC. ~~If~~ **As noted above under Regulated Investment Company Tax Status, if we fail to** ~~do not~~ **qualify** ~~requalify~~ as a RIC, we will be subject to corporate income tax, which would substantially reduce the amount of income we might otherwise distribute to our shareholders. If we reorganize as an operating company or a permanent capital vehicle, we will not continue to operate as a BDC. We have elected to be classified as a BDC under the 1940 Act. However, if we effect a reorganization of the Fund into an operating company or a permanent capital vehicle, we will seek to terminate our BDC classification. Holders of a majority of the outstanding common stock of the Fund have previously approved our cessation as a BDC under the 1940 Act and authorized our Board to cause the Fund's withdrawal of its election to be classified as a BDC. Although this authorization has expired, we expect to receive a further such authorization from our stockholders in the future. Nevertheless, if we were to terminate our election to be classified as a BDC and were still determined by the SEC to constitute an "investment company," we would be subject to significantly greater regulatory requirements and constraints than under those which we presently operate, the result of which could have a material adverse effect on our results and financial condition. If we reorganize as an operating company or a permanent capital vehicle, we may not be able to utilize our capital losses. As noted above, we may reorganize Equus as an operating company or a permanent capital vehicle. If we reorganize as an operating company or a permanent capital vehicle, we may lose our ability to offset future income against our cumulative capital losses. If we reorganized as an operating company or a permanent capital vehicle and were unable to offset future income against these capital losses, the result could have a material adverse effect on our future operating results and our financial condition. If we reorganize as an operating company or a permanent capital vehicle, our stockholders will no longer have certain protections under the 1940 Act. If we withdraw the Fund's election to be treated as a BDC, Equus will no longer be subject to regulation under the 1940 Act, which is designed to protect the interests of investors in investment companies. Specifically, our stockholders would no longer have the following protections of the 1940 Act:

- Leverage Limits. We would no longer be subject to the requirement in Section 61 of the 1940 Act that we maintain a ratio of assets to senior securities (such as senior debt or preferred stock) of at least 150 % and we would not be limited by statute or regulation to the amount of leverage we could incur.
- Range of Investments. We would no longer be prohibited from investing in certain types of companies, such as brokerage firms, insurance, companies, and investment companies.
- Changes in Financial Reporting. While the conversion of Equus into an operating company will enable us to consolidate the financial results of entities we control, a change in our method of accounting could also reduce the reported value of our investments in controlled privately-held companies by eliminating our ability to report an increase in the fair value of these holdings.
- Protection of Directors and Officers. We would no longer be prohibited from protecting any director or officer against any liability to the Fund or our stockholders arising from willful malfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of that person's office, although there are similar limitations under Delaware law, our Certificate of Incorporation, and our Bylaws that would still apply.
- Fidelity Bond. We would no longer be required to provide and maintain an investment company blanket bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. 22
- Director Independence. We would no longer be required to ensure that a majority of our directors are persons who are not "interested persons," as that term is defined in the 1940 Act, and certain persons, such as investment bankers, that would be prevented from serving on our Board if we were a BDC. However, assuming we can comply with the NYSE's listing standards for operating companies, we will remain subject to NYSE listing standards that require the majority of directors of a listed company and all members of its compensation, audit and nominating committees to be "independent" as defined under NYSE rules.
- Affiliate Transactions. We would no longer be subject to provisions of the 1940 Act regulating transactions between BDCs and certain affiliates, although we would still be subject to conflict of interest rules and governance procedures that exist under Delaware law and NYSE rules.
- Share Issuances. We would no longer be subject to provisions of the 1940 Act restricting our ability to issue shares below NAV or in exchange for services, nor would we be restricted in issuing more than one class of equity securities or instruments that could be converted into other classes of equity securities.
- Share Repurchases. We would no longer be restricted under the 1940 Act in our ability to repurchase shares from our stockholders, and would instead be subject only to NYSE rules and Delaware corporate law requirements for such repurchases.
- Change of Business. We would be able to change the nature of our business and fundamental investment policies without having to obtain the approval of our stockholders.
- Director and Officer Incentives. We would no longer require exemptive relief from the SEC before implementing incentive compensation plans for our key executives and non-executive directors. 23

Item 1B. Unresolved Staff Comments