EQUUS TOTAL RETURN, INC.
Form 10-Q
May 14, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period _____ to _____

Commission File Number 814-00098

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0345915**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Eight Greenway Plaza, Suite 930 Houston, Texas	**77046**
(Address of principal executive offices)	**(Zip Code)**

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

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company. Yes ¨ No x

There were 8,861,646 shares of the registrant s common stock, $.001 par value, outstanding, as of May 14, 2010.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

(in thousands, except per share amounts)	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at $35,194 and $35,315 respectively)	$ 28,726	$ 28,729
Affiliate investments (cost at $8,973 and $8,973 respectively)	1,310	2,128
Non-affiliate investments (cost at $13,714 and $13,350 respectively)	11,919	11,554
Total investments in portfolio securities at fair value	41,955	42,411
Restricted cash & temporary investments	21,209	30,299
Cash	377	535
Temporary cash investments	5,317	5,510
Accounts receivable and other	52	47
Accrued interest and dividends receivable due from portfolio companies	2,501	2,205
Total assets	$ 71,411	$ 81,007
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 261	$ 107
Borrowing under margin account	20,999	29,999
Total liabilities	21,260	30,106
Net assets:		
Preferred stock, $.001 par value, 5,000 shares authorized, no shares outstanding		
Common stock, $.001 par value, 50,000 shares authorized, 8,862 and 8,862 shares issued and outstanding, respectively	9	9
Additional paid-in capital	70,553	70,604
Undistributed net investment losses	(4,485)	(4,485)
Unrealized depreciation of portfolio securities, net	(15,926)	(15,227)
Total net assets	$ 50,151	$ 50,901
Net assets per share	$ 5.66	$ 5.74

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Unaudited)

(in thousands, except per share amounts)	**2010**	**2009**
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	$ 304	$ 311
Affiliate investments	13	25
Non-affiliate investments	530	548
Total interest and dividend income	847	884
Interest from temporary cash investments	4	21
Total investment income	851	905
Expenses:		
Management fee		362
Administrative fees		113
Compensation expense	348	
Professional fees	344	346
Director fees and expenses	100	105
Mailing, printing and other expenses	29	88
General and administrative expense	44	
Interest expense	9	11
Taxes	24	7
Total expenses	898	1,032
Net investment income (loss)	(47)	(127)
Net realized gain (loss) on portfolio securities:		
Control investments		
Affiliate investments		
Non-affiliate investments		
Temporary cash investments	(4)	(24)
Total net realized gain (loss) on portfolio securities	(4)	(24)
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	(15,926)	(1,941)
Beginning of period	(15,227)	(3,055)
Net change in unrealized appreciation (depreciation) of portfolio securities	(699)	1,114
Net increase (decrease) in net assets resulting from operations	$ (750)	$ 963
Net increase (decrease) in net assets resulting from operations per share:		
Basic and diluted	$ (0.08)	$ 0.11
Weighted average shares outstanding, in thousands		

Basic and diluted	8,862	8,572

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Unaudited)

(in thousands)	**2010**	**2009**
Net increase (decrease) in net assets resulting from operations:	$ (750)	$ 963
Capital share transactions:		
Dividend declared		(921)
Shares issued in dividend		919
Net increase (decrease) in net assets resulting from capital share transactions		(2)
Increase (decrease) in net assets	(750)	961
Net assets at beginning of period	50,901	78,435
Net assets at end of period	$ 50,151	$ 79,396

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Unaudited)

(in thousands)	2010	2009
Net increase (decrease) in net assets resulting from operations	$ (750)	$ 963
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized (gain) loss	4	24
Net change in unrealized (appreciation) depreciation of portfolio securities	699	(1,114)
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(200)	(670)
Principal payments received from portfolio securities	122	
Sales (purchases) of restricted temporary cash investments	9,086	2,975
(Increase) decrease in accounts receivable and other	(5)	(2)
Increase in accrued interest receivable due from portfolio securities	(461)	(508)
Decrease in accounts payable and accrued liabilities	154	47
Decrease in due to adviser		(93)
Net cash provided by (used in) operating activities	8,649	1,622
Cash flows from financing activities:		
Borrowings under margin account	20,999	42,000
Repayments under margin account	(29,999)	(44,969)
Dividends paid		(2)
Net cash provided by (used in) financing activities	(9,000)	(2,971)
Net decrease in cash and cash equivalents	(351)	(1,349)
Cash and cash equivalents at beginning of period	6,045	8,656
Cash and cash equivalents at end of period	$ 5,694	$ 7,307
Non-cash operating and financing activities:		
Shares issued in lieu of cash dividend	$	$ 919
Accrued interest or dividends exchanged for portfolio securities	$ 165	$ 332
Supplemental disclosure of cash flow information:		
Interest paid	$ 7	$ 23
Income taxes paid	$ 24	$

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

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EQUUS TOTAL RETURN, INC.

SUPPLEMENTAL INFORMATION SELECTED PER SHARE DATA AND RATIOS

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Unaudited)

	2010	2009
Investment income	$ 0.10	$ 0.10
Expenses	0.10	0.12
Net investment income (loss)	0.00	(0.02)
Net realized gain (loss) on portfolio securities		
Net change in unrealized appreciation (depreciation) of portfolio securities	(0.08)	0.13
Net increase (decrease) in net assets resulting from operations	(0.08)	0.11
Capital transactions:		
Dividend declared		(0.11)
Dilutive effect of shares issued in common stock dividend		(0.20)
Decrease in net assets resulting from capital transactions		(0.31)
Net increase (decrease) in net assets	(0.08)	(0.20)
Net assets at beginning of period	5.74	9.16
Net assets at end of period, basic and diluted	$ 5.66	$ 8.96
Weighted average number of shares outstanding during period, in thousands	8,862	8,572
Market value per share at end of period	$ 2.81	$ 2.85
Selected ratios:		
Ratio of expenses to average net assets	1.78%	1.31%
Ratio of net investment gain (loss) to average net assets	(0.09)%	(0.16)%
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	(1.48)%	1.22%
Total return on market price*	(12.19)%	(31.22)%

* Adjusted for dividends and can be calculated as the March 31, 2009 market value plus year-to-date dividends declared less the December 31, 2008 market value, divided by the December 31, 2008 market value. There were no dividends paid in the quarter ending March 31, 2010.

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

March 31, 2010

(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
				(amounts in thousands)		
Control investments: Majority-owned (5):						
Equus Media Development Company, LLC	Media	January 2007	Member interest (100%)		$ 5,000	$ 5,000
Houston, TX						
Riptide Entertainment, LLC	Entertainment and leisure	December 2005	Member interest (64.67%)		65	
Miami, FL			8% promissory notes (4)	$ 10,010	10,010	3,028
					10,075	3,028
Sovereign Business Forms, Inc.	Business products and services	August 1996	1,214,630 shares of common stock		5,080	4,648
					3,129	3,129
Houston, TX			12% promissory notes(2)	3,129		
					8,209	7,777
Spectrum Management, LLC	Business products and services	December 1999	285,000 units of Class A member interest		2,850	3,057
Carrollton, TX			16% subordinated promissory note(2)(3)	1,690	1,690	1,690
					4,540	4,747
Total Control investments: Majority-owned (represents 49.0% of total investments at fair value)					**$ 27,824**	**$ 20,552**
Control Investments: Non-majority owned(6):						
ConGlobal Industries Holding, Inc.	Shipping products and services	February 1997	24,397,303 shares of common stock		$ 1,370	$ 2,174
San Ramon, CA			7% promissory note (1)(2)	6,000	6,000	6,000
					7,370	8,174
Total Control Investments: Non-majority Owned (represents 19.5% of total investments at fair value)					**$ 7,370**	**$ 8,174**
Total Control Investments: (represents 68.5% of total investments at fair value)					**$ 35,194**	**$ 28,726**
Affiliate Investments(7):						
Infinia Corporation	Alternative energy	June 2007	1,151,800 shares preferred stock		$ 8,000	$ 659
Kennewick, WA			Option to purchase 16,000 shares of common stock at $6.50 per share through December 19, 2012			6
					8,000	665
Nickent Golf, Inc.	Entertainment and leisure	June 2007	8% receivership certificate(4)	$ 50	50	50
City of Industry, CA						

			3,000,000 shares Class A convertible preferred stock Warrants to buy 15,000 shares of common stock at $0.60 per share through March 17, 2013 Warrants to buy 1,434,149 shares of common stock at $0.60 per share through August 16, 2010, warrant terms subject to change	50	50
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock	350	
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.2%)	573	595
Total Affiliate Investments (represents 3.1% of total investments at fair value)				**$ 8,973**	**$ 1,310**

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES (Continued)

March 31, 2010

(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
				(amounts in thousands)		
Non-Affiliate Investments (less than 5% owned):						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note(2)(3)	$ 3,658	$ 3,658	$ 3,658
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% promissory note(2)(3)	3,193	3,193	3,193
London Bridge Entertainment Partners Ltd London UK	Entertainment and leisure	August 2008	18% promissory note(2)(3)	2,761	2,761	2,761
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock 38,750 Class C shares preferred stock 788,649 Class D shares 15% preferred stock 2,218,109 Class E shares 8% preferred stock Warrant to buy 2,229,450 shares of common stock through May 2016		1,795 1,795	
Trulite, Inc. El Dorado Hills, CA	Alternative energy	August 2008	18% promissory note(2) (3) Warrants to buy 8,934,211 shares of common stock ranging from $0.01 - $0.38 per share through November 2015	2,307	2,307 2,307	2,307 2,307
Total Non-Affiliate Investments (represents 28.4% of total investments at fair value)					**$ 13,714**	**$ 11,919**
Total Investments					**$ 57,881**	**$ 41,955**

(1) See Note 3 to the financial statements, Valuation of Investments.
(2) Income-producing.
(3) Income on these securities is paid-in-kind by the issuance of additional securities, accrual to maturity or through accretion of original issue discount.
(4) Non-income producing.
(5)

Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 50% of the voting securities of the company.

(6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.

(7) Affiliate investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns at least 5% but not more than 25% voting securities of the company.

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES (Continued)

March 31, 2010

(Unaudited)

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

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. The Fund provides significant managerial assistance to portfolio companies that comprise 77.1% of the total value of the investments in portfolio companies as of March 31, 2010.

The Fund s investments in portfolio securities consist of the following types of securities as of March 31, 2010 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$ 32,798	$ 25,816	51.5%
Limited liability company investments	8,488	8,652	17.3%
Common stock	6,800	6,822	13.6%
Preferred stock	9,795	659	1.3%
Options and warrants		6	0.0%
Total	$ 57,881	$ 41,955	83.7%

Three notes receivable included in secured and subordinated debt with an estimated fair value of $9.6 million provide that all or a portion of interest is paid in kind or the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. For the remainder of the secured and subordinated debt, cash payments of interest are currently being received and/or accrued on notes aggregating $13.1 million in fair value, while notes totaling $3.1 million are non-income producing.

The following is a summary by industry of the Fund s investments in portfolio securities as of March 31, 2010 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Entertainment and leisure	$ 12,690	25.4%
Business products and services	12,524	25.0%
Shipping products and services	8,174	16.3%
Media	5,000	10.0%
Alternative energy	2,972	5.9%
Healthcare	595	1.1%
Total	$ 41,955	83.7%

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

DECEMBER 31, 2009

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
				(amounts in thousands)		
Control Investments: Majority-owned(5):						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		$ 5,000	$ 5,000
Riptide Entertainment, LLC	Entertainment and leisure	December 2005	Member interest (64.67%)	$ 10,010	65 10,010	3,151
Miami, FL			8% promissory notes(4)			
					10,075	3,151
Sovereign Business Forms, Inc.	Business products	August 1996	1,214,630 shares of common stock	3,250	5,080 3,250	4,256 3,250
Houston, TX	and services		12% promissory notes(2)			
					8,330	7,506
Spectrum Management, LLC	Business products and services	December 1999	285,000 units of Class A member interest	1,690	2,850 1,690	3,208 1,690
Carrollton, TX			16% subordinated promissory note(2)(3)			
					4,540	4,898
Total Control Investments: Majority-owned (represents 48.5% of total investments at fair value)					**$ 27,945**	**$ 20,555**
Control Investments: Non-majority owned(6):						
ConGlobal Industries Holding, Inc.	Shipping products and services	February 1997	24,397,303 shares of common stock	$ 6,000	$ 1,370 6,000	$ 2,174 6,000
San Ramon, CA			7% promissory note(1)(2)			
					7,370	8,174
Total Control Investments: Non-majority Owned (represents 19.3% of total investments at fair value)					**$ 7,370**	**$ 8,174**
Total Control Investments: (represents 67.8% of total investments at fair value)					**$ 35,315**	**$ 28,729**
Affiliate Investments(7):						
Infinia Corporation	Alternative energy	June 2007	1,151,800 shares preferred stock		$ 8,000	$ 1,479
Kennewick, WA			Option to purchase 16,000 shares common stock at $6.50 per share through December 19, 2012			11
					8,000	1,490
Nickent Golf, Inc.	Entertainment and leisure	June 2007	8% receivership certificate(4)	50	50	25
City of Industry, CA			3,000,000 shares Class A convertible preferred stock			
			Warrants to buy 15,000 shares of common stock at $0.60 per share through March 17, 2013			

			Warrants to buy 1,434,149 shares of common stock at $0.60 per share through August 16, 2012, warrant terms subject to change	50	25
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock	350	
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.2%)	573	613
Total Affiliate Investments (represents 5.0% of total investments at fair value)				**$ 8,973**	**$ 2,128**

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

DECEMBER 31, 2009 (Continued)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
				(amounts in thousands)		
Non-Affiliate Investments (less than 5% owned):						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note(2)(3)	$ 3,587	$ 3,587	$ 3,587
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% promissory note(2)(3)	3,153	3,153	3,153
London Bridge Entertainment Partners Ltd London UK	Entertainment and leisure	August 2008	18% promissory note(2)(3)	2,707	2,707	2,707
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock 38,750 Class C shares preferred stock 788,649 Class D shares 15% preferred stock 2,218,109 Class E shares 8% preferred stock Warrant to buy 2,229,450 shares of common stock through May 2016		1,796	
					1,796	
Trulite, Inc. El Dorado Hills, CA	Alternative energy	August 2008	18% promissory note(2)(3) Warrants to buy 6,934,211 shares of common stock ranging from at $0.01 - $0.38 per share through November 2015	2,107	2,107	2,107
					2,107	2,107
Total Non-Affiliate Investments (represents 27.2% of total investments at fair value)					**$ 13,350**	**$ 11,554**
Total Investments					**$ 57,638**	**$ 42,411**

(1) See Note 3 to the financial statements, Valuation of Investments.
(2) Income-producing.
(3) Income on these securities is paid-in-kind by the issuance of additional securities, accrual to maturity or through accretion of original issue discount.
(4) Non-income producing.
(5) Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 50% of the voting securities of the company.
(6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.

(7) Affiliate investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns at least 5% but not more than 25% voting securities of the company.

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES (Continued)

DECEMBER 31, 2009

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

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. The Fund provides significant managerial assistance to portfolio companies that comprise 77.7% of the total value of the investments in portfolio securities as of December 31, 2009.

The Fund s investments in portfolio securities consist of the following types of securities at December 31, 2009 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$ 32,555	$ 25,671	50.5%
Limited liability company investments	8,488	8,820	17.3%
Common stock	6,800	6,430	12.6%
Preferred stock	9,795	1,479	2.9%
Options and warrants		11	0.0%
Total	$ 57,638	$ 42,411	83.3%

Three notes receivable included in secured and subordinated debt with an estimated fair value of $9.4 million provide that all or a portion of interest is paid-in-kind or the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. For the remainder of secured and subordinated debt, cash payments of interest are currently being received and/or accrued on notes aggregating $13.1 million in fair value, while notes totaling $3.2 million are non-income producing.

The following is a summary by industry of the Fund s investments as of December 31, 2009 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Entertainment and leisure	$ 12,624	24.8%
Business products and services	12,403	24.4%
Shipping products and services	8,174	16.1%
Alternative energy	3,597	7.1%
Media	5,000	9.8%
Healthcare	613	1.1%
Total	$ 42,411	83.3%

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

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EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 AND 2009

(Unaudited)

(1) Description of Business and Basis of Presentation

Description of Business Equus Total Return, Inc. (the Fund, EQS), formerly Equus II Incorporated, a Delaware corporation, was formed by Equus Investments II, L.P. (the Partnership) on August 16, 1991. On July 1, 1992, the Partnership was reorganized and all of the assets and liabilities of the Partnership were transferred to the Fund in exchange for shares of common stock of the Fund. The shares of the Fund trade on the New York Stock Exchange under the symbol EQS. On August 11, 2006, shareholders of the Fund approved the change of the Fund s investment strategy to a total return investment objective. This strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

The Fund seeks to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. The Fund seeks to invest primarily in companies which intend to grow either by acquiring other businesses, including leveraged buyouts, or organically. The Fund may also invest in recapitalizations of existing businesses or special situations from time to time. The Fund also invests in debt financing with the objective of generating regular interest income back to the Fund. Debt financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. The Fund elected to be treated as a business development company under the Investment Company Act of 1940 (1940 Act). For tax purposes, the Fund has elected to be treated as a regulated investment company (RIC). With shareholder approval on June 30, 2005, the Fund entered into a new investment advisory agreement with Moore Clayton Capital Advisors, Inc. (the Adviser). Prior to this agreement, the Fund s adviser was Equus Capital Management Corporation. On June 12, 2009, the Fund and its Board of Directors announced plans to internalize Fund management. The Fund s investment advisory agreement with the Adviser terminated on June 30, 2009. The Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to the Fund under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered.

Effective August 11, 2006, the Fund began to employ a total return investment style. The total return style combines both growth and income investments and is intended to strike a balance between the potential for gain and the risk of loss. In the growth category, the Fund is a growth-at- reasonable-price investor. The Fund invests primarily in privately owned companies and is open to virtually any potential growth investment in the privately owned arena. However, the Fund s primary aim is to identify and acquire only those equity securities that meet its criteria for selling at reasonable prices. The income investments made by the Fund consist principally of purchasing debt financing with the objective of generating regular interest income back to the fund as well as long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

Basis of Presentation In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and Securities Exchange Act of 1934, the Fund does not consolidate portfolio company investments, including those in which it has a controlling interest. The Fund s interim consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and in accordance with the requirements of reporting on Form 10-Q and Article 10 of Regulation S-X, under the Securities Exchange Act of 1934, as amended. Accordingly, they are unaudited and exclude some disclosures required for annual financial statements. Management believes it has made all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of these interim financial statements.

The results of operations for the three months ended March 31, 2010 are not necessarily indicative of results that ultimately may be achieved for the year. The interim unaudited consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund s Form 10-K for the fiscal year ended December 31, 2009, as filed with the Security and Exchange Commission (SEC). Certain prior period information has been reclassified to conform to current year presentation.

(2) Liquidity and Financing Arrangements

Liquidity There are several factors that may materially affect the Fund s liquidity during the reasonably foreseeable future. The Fund views this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e*., the period through March 31, 2011.

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Management is evaluating the impact of current market conditions on its portfolio company valuations and their ability to provide current income. Management has followed valuation techniques in a consistent manner; however, it is cognizant of current market conditions that might effect future valuations of portfolio securities. The Fund believes that its operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Cash and Temporary Investments As of March 31, 2010, the Fund had cash and temporary cash investments of $5.7 million. The Fund had $42.0 million of its net assets of $50.2 million invested in portfolio securities. Restricted assets totaled $21.2 million, of which $21.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund s pass-through tax treatment and $0.2 million for the required 1% brokerage deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on April 1, 2010.

As of December 31, 2009, the Fund had cash and temporary cash investments of $6.0 million. The Fund had $42.4 million of its net assets of $50.9 million invested in portfolio securities. Restricted assets totaled $30.3, of which $30.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund s pass-through tax treatment and $0.3 million for the required 1% brokerage deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on January 4, 2010.

Dividends On March 24, 2009, the Fund announced that it suspended its managed distribution policy and payment of quarterly distributions 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. The Fund will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the Investment Company Act of 1940.

Revolving Line of Credit Agreement Effective February 15, 2010, the Fund modified and extended its revolving line of credit agreement (the Credit Facility) with Amegy Bank of Texas. The Credit Facility was reduced to $5.0 million from $7.5 million and the maturity was extended to July 2011. The line of credit is intended to enable the Fund to make follow-on investments, when necessary. The Fund can borrow up to $5.0 million under the Credit Facility, subject to a borrowing base equal to 20% of the value of the Fund s eligible portfolio assets. The Credit Facility bears a floating interest rate of the higher of (a) the Federal Funds Rate plus $^{1}/_{2}$ of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Lender as its prime rate . The Credit Facility is secured by substantially all of the Fund s portfolio assets and securities. It contains certain restrictive covenants, including, but not limited to, the maintenance of certain financial ratios and certain limitations on indebtedness, liens, sales of assets, mergers and transactions with affiliates all of which the Fund is in compliance as of March 31, 2010. To date, the Fund has not borrowed any amounts under the Credit Facility.

Investment Commitments As of March 31, 2010, the Fund had no outstanding commitments to its portfolio company investments.

Under certain circumstances, the Fund may be called on to make follow-on investments in certain portfolio companies. If the Fund does not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, the Fund s equity interest in the estimated fair value of the portfolio company could be reduced.

RIC Borrowings, Restricted Cash and Temporary Investments As of March 31, 2010 and December 31, 2009, the Fund borrowed sufficient funds to maintain the Fund s RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on the Fund s net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be material to us and the Fund s stockholders.

As of March 31, 2010, the Fund borrowed $21.0 million to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of $21.2 million. The U.S. Treasury bills were sold and the total amount borrowed was repaid on April 1, 2010.

As of December 31, 2009, the Fund borrowed $30.0 million to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of $30.3 million. The U.S Treasury bills were sold on January 4, 2010 and the total amount borrowed was repaid at that time.

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Certain Risks and Uncertainties Economic conditions during 2009 and 2008 and market dislocations resulted in the availability of debt and equity capital declining significantly. Generally, the limited amount of available debt financing has shorter maturities, higher interest rates and fees, and more restrictive terms than debt facilities available in the past. In addition, during 2009 the price of our common stock continued to fall well below our net asset value, thereby making it undesirable to issue additional shares of our common stock. Because of these challenges, our near-term strategies shifted from originating debt and equity investments to preserving liquidity necessary to meet our operational needs. Key initiatives that we undertook during 2009 to provide necessary liquidity include monetizations, the suspension of dividends and the internalization of management. Although there can be no assurances that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our 2010 operating requirements.

(3) Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements:

Use of Estimates The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although management believes the estimates and assumptions used in preparing these interim financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates.

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

Publicly-traded portfolio securities Investments in companies whose securities are publicly traded are generally valued at their quoted market price at the close of business on the valuation date.

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

Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Appraised values are determined quarterly by management, subject to the approval of the Board of Directors.

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

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

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

For valuation purposes, the Fund uses the income approach to value its debt instruments. Since the Fund s general intent is to hold its loans to maturity, the fair value will not exceed the cost of the investment. A change in the assumptions that the Fund uses to estimate the fair value of its debt securities using the yield analysis could have a material impact on the

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determination of fair value. If there is deterioration in credit quality or a debt security is in workout status, the Fund may consider other factors in determining the fair value of the debt security, including the fair value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Fund s general intent is to hold its debt investments to maturity. Accordingly, the fair value of the debt investments will not exceed the cost of the investment. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

The Audit Committee of the Board may engage independent, third-party valuation firms to conduct independent appraisals and review management s preliminary valuations in order to make their own independent assessment of each privately-held investment that the Fund (a) has held for more than one year and (b) holds on its books at a fair value of at least $2.0 million. The Audit Committee will review and evaluate the preliminary valuations of management and those of any third-party valuations firms, if so retained, and will review and evaluate any third-party firm supplements to reflect any comments from management and/or Audit Committee members. Any third-party valuation data would be considered as one of many factors in a fair value determination. The Audit Committee then would recommend to the full Board fair values for all privately-held securities based on all relevant factors.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $42.0 million and $42.4 million as of March 31, 2010 and December 31, 2009, respectively, the Fund s fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. There were no publicly traded securities as of March 31, 2010 and December 31, 2009.

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

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

The Fund classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, Control Investments are defined as investments in companies in which EQS owns more than 25% of the voting securities or maintains greater than 50% of the board representation. Under the 1940 Act, Affiliate Investments are defined as those non-control investments in companies in which EQS owns between 5% and 25% of the voting securities. Under the 1940 Act, Non-affiliate Investments are defined as investments that are neither Control Investments nor Affiliate Investments.

Interest Income Recognition The Fund records interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that it expects to collect such amounts. The Fund accretes or amortizes discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities. The Fund stops accruing interest on investments when it determines that interest is no longer collectible. If the Fund receives any cash after determining that interest is no longer collectible, it treats such cash as payment on the principal balance until the entire principal balance has been repaid, before it recognizes any additional interest income.

Payment in Kind Interest The Fund has loans in its portfolio that may pay payment in kind (PIK) interest. The Fund adds PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain its status as a RIC, the Fund must pay out to stockholders this non-cash source of income in the form of dividends even if it has not yet collected any cash in respect of such investments.

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

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

Texas margin tax applies to legal entities conducting business in Texas, including previously non-taxable entities such as limited partnerships and limited liability partnerships. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a

base that considers both revenue and expenses and therefore has the characteristics of an income tax.

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Fair Value Measurement In September 2006, the Financial Accounting Standard Board (FASB) issued guidance regarding Fair Value Measurements which defined fair value, establishes a framework for measuring fair value, outlined a fair value hierarchy based on inputs used to measure fair value and enhanced disclosure requirements for fair value measurements. The guidance did not change existing guidance as to whether an instrument is carried at fair value. The Fund adopted changes issued by the FASB to fair value disclosures of financial instruments which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund has categorized all investments recorded at fair value based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument s anticipated life. Fair valued assets that are generally included in this category are warrants held in a public company.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are debt, warrants and/or other equity investments held in a private company. For loan and debt securities, the Fund has performed a yield analysis assuming a hypothetical current sale of the security. The yield analysis considers changes in interest rates and changes in leverage levels of the portfolio company as compared to the market interest rates and leverage levels. Assuming the credit quality of the portfolio company remains stable, the Fund will use the value determined by the yield analysis as the fair value for that security.

The Fund will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and will record unrealized appreciation when it determines that the fair value is greater than its cost basis.

As of March 31, 2010, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

	Fair Value Measurements As of March 31, 2010			
(in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments:				
Control investments	$ 28,726	$	$	$ 28,726
Affiliate investments	1,310			1,310
Non-Affiliate investments	11,919			11,919
Total assets reported at fair value	$ 41,955	$	$	$ 41,955

	Fair Value Measurements As of December 31, 2009			
(in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**

		1)		
Assets				
Investments:				
Control investments	$ 28,729	$	$	$ 28,729
Affiliate investments	2,128			2,128
Non-Affiliate investments	11,554			11,554
Total assets reported at fair value	$ 42,411	$	$	$ 42,411

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The following table provides a reconciliation of fair value changes during the three months ending March 31, 2010 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using significant unobservable inputs (Level 3)			
(in thousands)	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2009	$ 28,729	$ 2,128	$ 11,554	$ 42,411
Total realized losses				
Change in unrealized appreciation (depreciation)	119	(818)		(699)
Purchases, issuances and settlements, net	(122)		365	243
Fair value as of March 31, 2010	$ 28,726	$ 1,310	$ 11,919	$ 41,955

The following table provides a reconciliation of fair value changes during the three months ending March 31, 2009 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using unobservable inputs (Level 3)			
(in thousands)	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2008	$ 36,885	$ 20,974	$ 10,135	$ 67,994
Change in unrealized appreciation	(505)	1,479		974
Purchases, issuances and settlements, net	350	320	332	1,002
Fair value as of March 31, 2009	$ 36,730	$ 22,773	$ 10,467	$ 69,970

Reclassification Certain amounts for the three months ended March 31, 2009 have been reclassified in the comparative financial statements to be comparable to the presentation in the three months ended March 31, 2010. These reclassifications had no effect on net assets, net income or cash flows from operating activities.

(4) Related Party Transactions and Agreements

The Fund had entered into an investment advisory agreement dated June 30, 2005 with Moore Clayton Capital Advisors, Inc., pursuant to which Moore Clayton Capital Advisors, Inc. provided investment advisory services in exchange for an advisory fee. The Fund also had entered into an administration agreement dated June 30, 2005 with Equus Capital Administration Company, Inc., pursuant to which Equus Capital Administration Company, Inc. provided administrative services in exchange for an administrative fee. The Fund s Board of Directors terminated the advisory agreement and the administrative agreement effective June 30, 2009. The Fund is now internally managed. This means that the Fund directly employs its management team and incur the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to the Fund under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered since June 30, 2009.

As compensation for services to the Fund, each Independent Director 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 and a fee of $1,000 for each committee meeting attended, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. A quarterly fee of $2,500 is paid to the Chairman of the Independent Directors and the Chairman of the Audit Committee. An annual fee of $15,000 is paid to the Chairman of the Board of Directors.

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(5) Dividends

On February 27, 2009, the Fund announced the declaration of a first quarter dividend of $0.1075 per share. The Fund issued 296,528 additional shares of its common stock at an effective price of $3.10 per share and paid $2,000 in cash for fractional shares. This dividend was 100% qualified and classified as 21% ordinary income and 79% return of capital.

On March 24, 2009, the Fund announced that it suspended its managed distribution policy and payment of quarterly distributions for an indefinite period, following the distribution of the first quarter dividend, paid on March 30, 2009. The Fund will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the Investment Company Act of 1940.

(6) Portfolio Securities

During the three months ended March 31, 2010, the Fund had investment activity of $0.4 million in several follow-on investments, including $0.2 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK).

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The following table includes significant investment activity during the quarter ended March 31, 2010 (in thousands):

	New Investments		Existing Investments		
Portfolio Company	**Cash**	**PIK**	**Follow-On**	**PIK**	**Total**
TruLite, Inc.	$	$	$ 200	$	$ 200
1848 Capital Partners LLC				71	71
London Bridge Entertainment Partners Ltd				54	54
Big Apple Entertainment Partners LLC				40	40
	$	$	$ 200	$ 165	$ 365

Net unrealized depreciation on investments increased by $0.7 million during the three months ended March 31, 2010, to a net unrealized depreciation of $15.9 million. Such increase in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation of ($0.8) million, Riptide Entertainment LLC of ($0.1) million and Spectrum Management, LLC of ($0.2) million, resulting from declining sales and trailing operations for the period. These decreases in estimated fair market value were partially offset by the increase in fair market value of Sovereign Business Forms, Inc. of $0.4 million, resulting from an increase in operations.

During the three months ended March 31, 2009, the Fund had investment activity of $1.0 million in several portfolio companies, including $0.3 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK).

The following table includes significant investment activity during the quarter ended March 31, 2009 (in thousands):

	New Investments		Existing Investments		
Portfolio Company	**Cash**	**PIK**	**Follow-on**	**PIK**	**Total**
Riptide Entertainment, LLC	$	$	$ 350	$	$ 350
Nickent Golf, Inc.			320		320
1848 Capital Partners LLC				244	244
London Bridge Entertainment Partners Ltd				50	50
Big Apple Entertainment Partners LLC				38	38
			$ 670	$ 332	$ 1,002

Net unrealized depreciation on investments decreased by $1.1 million during the three months ended March 31, 2009, from a net unrealized depreciation of $3.0 million to a net unrealized depreciation of $1.9 million. Such decrease in depreciation resulted primarily from increase in estimated fair market value of Infinia Corporation of $1.8 million and Spectrum Management, Inc. of $0.9 million, resulting from an increase in operations for the period. These increases were partially offset by the decrease in fair market value of Sovereign Business Forms, Inc. of ($0.5) million and ConGlobal Industries Holdings, Inc. of $(0.9) million, resulting from declining sales and trailing operations.

(9) Recent Accounting Pronouncements

Effective January 1, 2010, the Fund adopted changes issued by the FASB to add new requirements for disclosures about significant transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. In addition, the update clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The adoption of this standard had no impact on our financial position and results of operations.

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In January 2010, the FASB issued changes to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes become effective for the Fund beginning January 1, 2011. Other than the additional disclosure requirements, the Fund does not anticipate that the adoption of this standard will have a material effect on our financial position and results of operations

(10) Subsequent Events

Management performed an evaluation of the Fund s events and transactions through the date the financial statements were available to be issued, noting the following subsequent events:

On April 1, 2010, the Fund sold U.S. Treasury bills for $21.0 million and repaid the margin loan.

On April 30, 2010, the Fund received $0.02 million from Sovereign Business Forms, Inc. in the form of a principal payment.

On May 12, 2010, the Fund held its annual meeting of shareholders. The purpose of the meeting was to elect nine directors and to ratify the appointment of UHY LLP as the Fund s independent auditor for fiscal year ending December 31, 2010. As of the filing of this Form 10-Q, the meeting results had not yet been certified.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Equus Total Return, Inc. is a business development company which invests in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. The Fund did not make any new investments other than follow-on investments during the three months ended March 31, 2010 and March 31, 2009.

The valuation of the Fund s investments is the most significant area of judgment impacting the financial statements. The Fund s portfolio investments are valued at estimates of fair value, with the net change in unrealized appreciation or depreciation included in the determination of net assets. Almost all of the long-term investments are in privately-held or restricted securities, the valuation of which is necessarily subjective. Actual values may differ materially from the Fund s estimated fair value.

Most of the Fund s portfolio companies utilize leverage, and the leverage magnifies the return on its investments. For example, if a portfolio company has a total enterprise value of $10.0 million and $7.5 million in funded indebtedness, its equity is valued at $2.5 million. If the enterprise value increases or decreases by 20%, to $12.0 million or $8.0 million, respectively, the value of the equity increases or decreases by 80%, to $4.5 million or $0.5 million, respectively. This disproportionate increase or decrease adds a level of volatility to the Fund s equity-oriented portfolio securities.

On June 12, 2009, the Fund and its Board of Directors announced plans to internalize Fund management. The Fund s investment advisory agreement with the Adviser terminated June 30, 2009. The Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to the Fund under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered.

The Fund derives its cash flow from interest and dividends received and sales of securities from its investment portfolio. The Fund pays certain general and administrative fees and interest expense on its existing debt. The Fund also spends its cash on new investments, or follow-on investments which may be required by certain portfolio companies. Because the investments are illiquid, the Fund utilizes leverage to provide the required funds, and the leverage is then repaid from the sale of portfolio securities.

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

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Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements:

Use of Estimates The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although management believes the estimates and assumptions used in preparing these interim financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates.

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

Publicly-traded portfolio securities Investments in companies whose securities are publicly traded are generally valued at their quoted market price at the close of business on the valuation date.

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

Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Appraised values are determined quarterly by management, subject to the approval of the Board of Directors.

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

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

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

For valuation purposes, the Fund uses the income approach to value its debt instruments. Since the Fund s general intent is to hold its loans to maturity, the fair value will not exceed the cost of the investment. A change in the assumptions that the Fund uses to estimate the fair value of its debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a debt security is in workout status, the Fund may consider other factors in determining the fair value of the debt security, including the fair value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The Fund s general intent is to hold its debt investments to maturity. Accordingly, the fair value of the debt investments will not exceed the cost of the investment. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

The Audit Committee of the Board may engage independent, third-party valuation firms to conduct independent appraisals and review management s preliminary valuations in order to make their own independent assessment of each privately-held investment that the Fund (a) has held for more than one year and (b) holds on its books at a fair value of at least $2.0 million. The Audit Committee will review and evaluate the preliminary valuations of management and those of any third-party valuations firms, if so retained, and will review and evaluate any third-party firm supplements to reflect any comments from management and/or Audit Committee members. Any third-party valuation data would be

considered as one of many factors in a fair value determination. The Audit Committee then would recommend to the full Board fair values for all privately-held securities based on all relevant factors.

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Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $42.0 million and $42.4 million as of March 31, 2010 and December 31, 2009, respectively, the Fund s fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. There were no publicly traded securities as of March 31, 2010 and December 31, 2009.

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

Federal Income Taxes

The Fund intends to comply with the requirements of the Code necessary for us to qualify as a RIC. So long as it complies with these requirements, the Fund generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. Therefore, the Fund did not record a provision for federal income taxes in its financial statements. The Fund may borrow money from time to time to maintain its status as a RIC under the Code.

Interest Income Recognition

The Fund records interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that it expects to collect such amounts. The Fund stops accruing interest on investments when it determines that interest is no longer collectible. If the Fund receives any cash after determining that interest is no longer collectible, it treats such cash as payment on the principal balance until the entire principal balance has been repaid, before it recognizes any additional interest income. The Fund accretes or amortizes discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities.

Payment in Kind Interest

The Fund has loans in its portfolio that may pay payment in kind (PIK) interest. The Fund adds PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain its status as a RIC, the Fund must pay out to stockholders this non-cash source of income in the form of dividends even if it has not yet collected any cash in respect of such investments.

Current Market Conditions

Since late 2007, the state of the economy in the U.S. remained in a recession as consumer confidence deteriorated and unemployment indices increased. Banks and other financial service companies continued to experience difficulties as the extending of credit suffered its largest single year decline during 2009 since the World War II era. Loan delinquency rates are at 26 year highs and bank failures increased and the threat of continued failures remains as concerns regarding commercial real estate have weighed on the financial industry. Stock market returns were stronger as the S&P 500 improved approximately 23% during the year ended December 31, 2009, despite reaching a 12 year low in the first quarter of 2009. Merger and acquisition activity was at its lowest level since 2004. In recent months, certain economic indicators have shown modest improvements.

To the extent that recessionary conditions continue or worsen, the financial results of middle-market companies, like those in which we invest, will continue to experience deterioration, which ultimately could lead to difficulty in meeting debt service requirements and an increase in defaults. Many of the companies have experienced difficult operating environments and access to capital has been limited.

Consistent with other companies in the financial services sector, the Fund s performance has been adversely affected. Between March 31, 2010 and March 31, 2009, the net asset value of the Fund declined from $8.96 per share to $5.66 per share. The Fund s common stock is trading at a 50% discount.

During 2009, we executed a management internalization strategy initiated to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and enhance communication with shareholders. We believe these actions continue to be necessary to protect capital and liquidity during this turbulent economic period in order to preserve and enhance shareholder value.

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Liquidity and Capital Resources

Because of the nature and size of the portfolio investments, the Fund may periodically borrow funds to make qualifying investments to maintain its tax status as a RIC. During the three months ended March 31, 2010 and 2009, the Fund borrowed such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on its net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends.

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

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 stockholders will be able to claim their proportionate share of the federal income taxes paid 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.

Management is currently evaluating the impact of current market conditions on its portfolio company valuations and their ability to provide current income. Management has followed valuation techniques in a consistent manner; however, it is cognizant of current market conditions that might effect future valuations of portfolio securities. The Fund has access to a $5.0 million revolving line of credit facility with Amegy Bank. The Fund has not yet borrowed under this facility. The Fund believes that its operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Results of Operations

Investment Income and Expense

Net investment loss after all expenses was $0.05 and $0.1 million for the three months ended March 31, 2010 and March 31, 2009, respectively. The decrease in net investment loss generated at March 31, 2010 compared to March 31, 2009 is due primarily to the decrease in total investment income offset by a greater decrease in total expenses for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009.

Total income from portfolio securities was $0.8 million and $0.9 million for the three months ended March 31, 2010 and 2009, respectively.

Interest from temporary cash investments decreased from $0.02 million for the three months ended March 31, 2009 to $0.004 million for the three months ended March 31, 2010. The cash in temporary investments (excluding the margin account) decreased $2.0 million from $7.3 million as of March 31, 2009 to $5.3 million as of March 31, 2010, primarily due to the increase in follow-on investments along with operating expenditures.

The former Adviser received management fee compensation at an annual rate of 2% of the net assets of the Fund paid quarterly in arrears. Such fees amounted to $0.4 million for the three months ended March 31, 2009. The Fund also reimbursed the former Administrator, for the costs and expenses incurred in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements do not exceed $450,000 per year. The former Administrator received $0.1 million for the three months ended March 31, 2009.

Compensation expenses were $0.3 million for the three months ended March 31, 2010. General and administrative fees were $0.04 million for the three months ended March 31, 2010. As a result of the internalization management, the Fund assumed these obligations directly beginning July 1, 2009.

Realized Gains and Losses on Sales of Portfolio Securities

During the three months ended March 31, 2010, the Fund realized net capital loss of $0.004 million from the sale of U.S. Treasury Bills.

During the three months ended March 31, 2009, the Fund realized net capital loss of $0.02 million from the sale of U.S. Treasury Bills.

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Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Net unrealized depreciation on investments increased by $0.7 million during the three months ended March 31, 2010, to a net unrealized depreciation of $15.9 million. Such increase in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation, Riptide Entertainment LLC and Spectrum Management, LLC, resulting from declining sales and trailing operations for the period. These decreases in estimated fair market value were partially offset by the increase in fair market value of Sovereign Business Forms, Inc., resulting from an increase in operations.

Net unrealized depreciation on investments decreased by $1.1 million during the three months ended March 31, 2009, from a net unrealized depreciation of $3.0 million to a net unrealized depreciation of $1.9 million. Such decrease in depreciation resulted primarily from increase in estimated fair market value of Infinia Corporation and Spectrum Management, Inc., resulting from an increase in operations for the period. These increases were partially offset by the decrease in fair market value of Sovereign Business Forms, Inc. and ConGlobal Industries Holdings, Inc, resulting from declining sales and trailing operations.

Dividends

On February 27, 2009, the Fund announced the declaration of a first quarter dividend of $0.1075 per share. The Fund issued 296,528 additional shares of its common stock at an effective price of $3.10 per share and paid $2,000 in cash for fractional shares. This dividend was 100% qualified and classified as 21% ordinary income and 79% return of capital.

On March 24, 2009, the Fund announced that it suspended its managed distribution policy and payment of quarterly distributions for an indefinite period, following the distribution of the first quarter dividend, paid on March 30, 2009. The Fund will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the Investment Company Act of 1940.

Portfolio Investments

The following table includes significant investment activity during the quarter ended March 31, 2010 (in thousands):

	New Investments		Existing Investments		
Portfolio Company	**Cash**	**PIK**	**Follow-on**	**PIK**	**Total**
TruLite, Inc.	$	$	$ 200	$	$ 200
1848 Capital Partners LLC				71	71
London Bridge Entertainment Partners Ltd				54	54
Big Apple Entertainment Partners LLC				40	40
	$	$	$ 200	$ 165	$ 365

The following table includes significant investment activity during the quarter ended March 31, 2009 (in thousands):

	New Investments		Existing Investments		
Portfolio Company	**Cash**	**PIK**	**Follow-on**	**PIK**	**Total**
Riptide Entertainment, LLC	$	$	$ 350	$	$ 350
Nickent Golf, Inc.			320		320
1848 Capital Partners LLC				244	244
London Bridge Entertainment Partners Ltd				50	50
Big Apple Entertainment Partners LLC				38	38
			$ 670	$ 332	$ 1,002

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Item 1A. Risk Factors

There have been no material changes in the Fund s risk factors from the disclosure set forth in the Annual Report on Form 10-K for the year ended December 31, 2009.

Readers should carefully consider these risks and all other information contained in the annual report on Form 10-K, including the Fund s consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing the Fund. Additional risks and uncertainties not presently known to the Fund, or not presently deemed material by the Fund, may also impair its operations and performance.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

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

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

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

The Fund is classified as a non-diversified investment company under the Investment Company Act, which means the Fund is not limited in the proportion of its assets that may be invested in the securities of a single user. The value of one segment called Shipping Products and Services includes one portfolio companies and was 16.3% of the net asset value and 19.5% of the Fund s investments in portfolio company securities (at fair value) at March 31, 2010. 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 the net asset value and the market price of the Fund s common stock to a greater extent than would be the case if the Fund were a diversified company holding numerous investments.

Item 4. Controls and Procedures

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

The Fund s management, with the participation of the Fund s Chief Investment Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operations of the Fund s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2010. Based on their evaluation, the Fund s Chief Investment Officer (Principal Executive Officer) and Chief Financial Officer concluded that the Fund s disclosure controls and procedures were effective at a reasonable assurance level. There has been no change in the Fund s internal control over financial reporting during the quarter ended March 31, 2010, that has materially affected, or is reasonably likely to materially affect, the Fund s internal control over financial reporting.

Part II. Other Information

Item 5. Legal Proceedings

On June 30, 2009, the Fund received a Wells notice from the staff of the Securities and Exchange Commission (SEC). Based on discussions with the SEC staff, the Fund believes that the issues the staff intends to pursue relate to a one-time administrative fee that the Fund paid in 2005 and the compensation of a certain Fund officer during approximately the same time period. The Wells notice notified the Fund that the staff intends to recommend that the SEC bring a civil action against the Fund for possible violations of the securities laws. The Fund has been cooperating with the SEC in this inquiry. In accordance with SEC procedures, the Fund has presented its perspective on these issues to the staff. The SEC has not made a formal decision regarding an enforcement proceeding. The Fund also understands that three persons (two of whom are formerly associated with the Fund and the Fund s Former Adviser) received similar Wells notices relating to the 2005 activity. The Fund understands that these individuals also will have an opportunity to present their perspectives on these issues before any formal decision is made on enforcement proceedings.

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On April 26, 2010, the SEC also subpoenaed records of the Fund in connection with certain trades in the Fund s shares by SPQR Capital LLP, SAE Capital, Ltd., Versatile Systems, Inc., Mobiquity Investments, Ltd., and anyone associated with those entities. The Fund is fully cooperating with the SEC s request.

From time to time, the Fund is also a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, the Fund does not expect that these proceedings will have a material effect upon the Fund s financial condition or results of operations.

Item 6. Exhibits

3. Articles of Incorporation and by-laws

(a) Restated Certificate of Incorporation of the Fund, as amended. [Incorporated by reference to Exhibit 3(a) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2007]

(b) Certificate of Merger dated June 30, 1993, between the Fund and Equus Investments Incorporated [Incorporated by reference to Exhibit 3(c) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2007]

(c) Amended and Restated Bylaws of the Fund. [Incorporated by reference to Exhibit 3(c) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2007]

10. Material Contracts.

(c) Safekeeping Agreement between the Fund and Amegy Bank dated August 16, 2008. [Incorporated by reference to Exhibit 10(c) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2008.]

(d) Form of Indemnification Agreement between the Fund and its directors and certain officers. [Incorporated by reference to Exhibit 10(g) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.]

(e) Form of Release Agreement between the Fund and certain of its officers and former officers. [Incorporated by reference to Exhibit 10(h) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.]

(f) Code of Ethics of the Fund (Rule 17j-1) [Incorporated by reference to Exhibit 10(f) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2009.]

(g).1 Revolving Credit Note between the Fund and Amegy Bank National Association dated August 13, 2008. [Incorporated by reference to Exhibit 10 (g) to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.]

(g).2 First Extension and Modification Agreement between the Fund and Amegy Bank National Associated dated February 15, 2010. [Filed herewith.]

(h) Pledge and Security Agreement between the Fund and Amegy Bank National Association dated August 13, 2008. [Incorporated by reference to Exhibit 10 (h) to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.]

31. Rule 13a-14(a)/15d-14(a) Certifications

1. Certification by Principal Executive Officer

2. Certification by Chief Financial Officer

32. Section 1350 Certifications

1. Certification by Principal Executive Officer

2. Certification by Chief Financial Officer

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SIGNATURE

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 TOTAL RETURN, INC.

Date: May 17, 2010

/s/ Jay Brown
Jay Brown
Chief Investment Officer