

EQUUS TOTAL RETURN, INC.

Form 10-Q

November 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 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
(State or other jurisdiction of
incorporation or organization)

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

Eight Greenway Plaza, Suite 930 Houston, Texas

77046

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(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 ☒ 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 ☒ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company. Yes ☐ No ☒

There were 8,861,646 shares of the registrant's common stock, \$.001 par value, outstanding, as of November 10, 2010.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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BALANCE SHEETS

Part I. Financial Information

Item 1. Financial Statements

	September 30, 2010 (Unaudited)	December 31, 2009
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$34,171 and \$35,315 respectively)	\$ 17,114	\$ 28,729
Affiliate investments (cost at \$923 and \$8,973 respectively)	727	2,128
Non-affiliate investments (cost at \$20,305 and \$13,350 respectively)	3,510	11,554
Total investments in portfolio securities at fair value	21,351	42,411
Restricted cash and temporary investments	16,160	30,299
Cash	2,477	535
Temporary cash investments	4,928	5,510
Accounts receivable and other	174	47
Accrued interest receivable due from portfolio companies	2,598	2,205
Deferred offering costs	65	-
Total assets	47,753	81,007
Liabilities		
Accounts payable and accrued liabilities	\$ 178	\$ 107
Accounts payable to related parties	101	-
Borrowing under margin account	16,000	29,999
Total liabilities	16,279	30,106
Net assets	\$ 31,474	\$ 50,901
Net assets consist of:		
Common stock, par value	9	9
Capital in excess of par value	70,598	70,604
Undistributed net investment losses	(5,085)	(4,485)
Unrealized depreciation of portfolio securities, net	(34,048)	(15,227)
Total net assets	\$ 31,474	\$ 50,901
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	8,862	8,862
Shares of preferred stock \$.001 par value, 5,000 shares authorized, no shares outstanding	-	-
Net asset value per share	\$ 3.55	\$ 5.74

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30,	
(in thousands, except per share amounts)	2010	2009
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	\$ 274	\$ 809
Affiliate investments	13	13
Non-affiliate investments	319	501
Total interest and dividend income	606	1,323
Interest from temporary cash investments	2	6
Total investment income	608	1,329
Expenses:		
Compensation expense	244	259
Professional fees	123	375
Director fees and expenses	62	111
Mailing, printing and other expenses	37	52
General and administrative expense	42	81
Interest expense	7	11
Taxes	14	-
Total expenses	529	889
Net investment income	79	440
Net realized loss on portfolio securities:		
Temporary cash investments	(1)	(6)
Total net realized loss on portfolio securities	(1)	(6)
Net unrealized depreciation of portfolio securities:		
End of period	(34,048)	(15,842)
Beginning of period	(27,556)	(8,043)
Net change in unrealized depreciation of portfolio securities	(6,492)	(7,799)
Net decrease in net assets resulting from operations	\$ (6,413)	\$ (7,365)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	\$ (0.72)	\$ (0.83)
Weighted average shares outstanding, in thousands		
Basic and diluted	8,862	8,862

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

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EQUUS TOTAL RETURN, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except per share amounts)	2010	Nine months ended September 30, 2009
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	\$ 851	\$ 1,361
Affiliate investments	39	37
Non-affiliate investments	1,387	1,510
Total interest and dividend income	2,277	2,908
Interest from temporary cash investments	9	41
Total investment income	2,286	2,949
Expenses:		
Management fee	-	714
Administrative fees	-	226
Compensation expense	793	259
Professional fees	1,300	1,014
Director fees and expenses	275	356
Mailing, printing and other expenses	317	212
General and administrative expense	132	81
Interest expense	31	33
Taxes	38	30
Total expenses	2,886	2,925
Net investment income loss	(600)	24
Net realized loss on portfolio securities:		
Temporary cash investments	(6)	(38)
Total net realized loss on portfolio securities	(6)	(38)
Net unrealized depreciation of portfolio securities:		
End of period	(34,048)	(15,842)
Beginning of period	(15,227)	(3,055)
Net change in unrealized depreciation of portfolio securities	(18,821)	(12,787)
Net decrease in net assets resulting from operations	\$ (19,427)	\$ (12,801)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	\$ (2.19)	\$ (1.46)
Weighted average shares outstanding, in thousands		
Basic and diluted	8,862	8,766

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
(Unaudited)

(in thousands)	Nine months ended September 30,	
	2010	2009
Net decrease in net assets resulting from operations	\$ (19,427)	\$ (12,801)
Capital share transactions:		
Dividend declared	-	(921)
Shares issued in dividend	-	919
Net increase (decrease) in net assets resulting from capital share transactions	-	(2)
Decrease in net assets	(19,427)	(12,803)
Net assets at beginning of period	50,901	78,435
Net assets at end of period	\$ 31,474	\$ 65,632

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
(in thousands)	2010	2009
Reconciliation of decrease in net assets resulting from operations to net cash provided by operating activities:		
Net decrease in net assets resulting from operations	\$ (19,427)	\$ (12,801)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Net realized loss	6	38
Net change in unrealized depreciation of portfolio securities	18,821	12,787
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(775)	(720)
Principal payments received from portfolio securities	3,501	916
Sales of restricted temporary cash investments	14,133	11,043
Decrease in accounts receivable and other	(127)	(46)
Increase in accrued interest receivable due from portfolio securities	(880)	(1,600)
Increase in deferred offering costs	(65)	-
Increase (decrease) in accounts payable and accrued liabilities	71	(103)
Increase in accounts payable-related parties	101	-
Decrease in due to adviser	-	(455)
Net cash provided by operating activities	15,359	9,059
Cash flows from financing activities:		
Borrowings under margin account	55,999	117,038
Repayments under margin account	(69,998)	(128,009)
Dividends paid	-	(2)
Net cash used in financing activities	(13,999)	(10,973)
Net decrease in cash and cash equivalents	1,360	(1,914)
Cash and temporary cash investments at beginning of period	6,045	8,656
Cash and temporary cash investments at end of period	\$ 7,405	\$ 6,742
Non-cash operating and financing activities:		
Shares issued in lieu of cash dividend	\$ -	\$ 919
Accrued interest or dividends exchanged for portfolio securities	\$ 487	\$ 875
Supplemental disclosure of cash flow information:		
Interest paid	\$ 7	\$ 42
Income taxes paid	\$ 38	\$ 17

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
(Unaudited)

	Nine months ended September 30,			
	2010		2009	
Investment income	\$0.26		\$0.34	
Expenses	(0.33)	0.34	
Net investment income (loss)	(0.07)	-	
Net realized loss on portfolio securities	-		-	
Net change in unrealized depreciation of portfolio securities	(2.12)	(1.46)
Net decrease in net assets resulting from operations	(2.19)	(1.46)
Capital transactions:				
Dividend declared	-		(0.11)
Dilutive effect of shares issued in common stock dividend	-		(0.18)
Decrease in net assets resulting from capital transactions	-		(0.29)
Net decrease in net assets	(2.19)	(1.75)
Net assets at beginning of period	5.74		9.16	
Net assets at end of period, basic and diluted	\$3.55		\$7.41	
Weighted average number of shares outstanding during period, in thousands	8,862		8,766	
Market value per share at end of period	\$2.38		\$3.22	
Selected ratios:				
Ratio of expenses to average net assets	7.01	%	4.06	%
Ratio of net investment gain (loss) to average net assets	(1.46)%	0.03	%
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	(47.17)%	(17.77)%
Total return on market price*	(25.63)%	(22.62)%

* Adjusted for dividends and can be calculated as the current market value plus year-to-date dividends declared less the beginning market value, divided by the beginning market value. There were no dividends paid in the nine months ending September 30, 2010.

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES
SEPTEMBER 30, 2010
(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment (in thousands)	Fair Value(1)
Control investments: Majority-owned (5):						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		\$ 4,000	\$ 1,175
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%) 8% promissory notes (4)	\$ 10,009	65 10,009	- -
					10,074	-
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock (64.66% / 55.00% Fully Diluted) 12% subordinated promissory notes (2)	3,107	5,080 3,107	4,552 3,107
					8,187	7,659
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (79%) 16% subordinated promissory note(2)(3)	1,690	2,850 1,690	590 1,690
					4,540	2,280
Total Control investments: Majority-owned (represents 52.1% of total investments at fair value)					\$ 26,801	\$ 11,114
Control Investments: Non-majority owned(6):						
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock (32.22%) 7% subordinated promissory note (2)	\$ 6,000	\$ 1,370 6,000	\$ - 6,000
					7,370	6,000
Total Control Investments: Non-majority Owned (represents 28.1% of total investments at fair value)					\$ 7,370	\$ 6,000
Total Control Investments: (represents 80.2% of total investments at fair value)					\$ 34,171	\$ 17,114
Affiliate Investments(7):						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (20% / 18.70% Fully Diluted)		350	50
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.20%)		573	677

Total Affiliate Investments (represents 3.4% of total investments at fair value)	\$	923	\$	727
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The accompanying notes are an integral part of these financial statements.

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES – (Continued)

SEPTEMBER 30, 2010

(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment (in thousands)	Fair Value(1)
Non-Affiliate Investments (less than 5% owned):						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note (2)(3)	\$ 3,806	\$ 3,806	\$ 299
Big Apple Entertainment Partners LLC New York, NY Infinia Corporation	Entertainment and leisure	October 2007	18% promissory note (2)(3)	3,274	3,274	2,283