

EQUUS TOTAL RETURN, INC.

Form 10-Q

November 14, 2018

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, 2018

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	(I.R.S. Employer
incorporation or organization)	Identification No.)

700 Louisiana St., 48th Floor

Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 every Interactive Data File required to be submitted 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 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	Emerging Growth Company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 13,518,146 shares of the registrant's common stock, \$.001 par value, outstanding, as of November 14, 2018

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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Table of Contents**EQUUS TOTAL RETURN, INC.****BALANCE SHEETS****(Unaudited)****Part I. Financial Information****Item 1. Financial Statements**

	September 30, 2018	December 31, 2017
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$10,050)	\$ 10,711	\$ 8,212
Affiliate investments (cost at \$350)	20,500	16,686
Non-affiliate investments - related party (cost at \$6,501 and \$6,276, respectively)	5,004	5,240
Non-affiliate investments (cost at \$977)	977	977
Total investments in portfolio securities at fair value	37,192	31,115
Temporary cash investments	16,995	17,998
Cash and cash equivalents	8,206	10,795
Restricted cash	170	180
Accounts receivable from affiliates	561	586
Accrued interest receivable	489	420
Other assets	174	110
Total assets	63,787	61,204
Liabilities and net assets		
Accounts payable	114	122
Accounts payable to related parties	107	77
Borrowing under margin account	16,995	17,998
Total liabilities	17,216	18,197
Commitments and contingencies (see Note 2)		
Net assets	\$ 46,571	\$ 43,007
Net assets consist of:		
Common stock, par value	\$ 13	\$ 13
Capital in excess of par value	55,661	55,304
Undistributed net investment losses	(28,421)	(25,772)
Undistributed net capital gains	4	—

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Unrealized appreciation of portfolio securities, net	20,811	14,498
Unrealized depreciation of portfolio securities, net - related party	(1,497)	(1,036)
Total net assets	\$46,571	\$43,007
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	13,518	13,518
Shares of preferred stock issued and outstanding, \$.001 par value, 5,000 shares authorized	—	—
Net asset value per share	\$3.45	\$3.18

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

Table of Contents**EQUUS TOTAL RETURN, INC.****STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months ended		Nine Months Ended	
(in thousands, except per share amounts)	September 30, 2018	2017	September 30, 2018	2017
Investment income:				
Interest and dividend income:				
Non-affiliate investments - related party	\$76	\$65	\$225	\$192
Non-affiliate investments	—	45	69	240
Total interest and dividend income	76	110	294	432
Interest from temporary cash investments	9	2	21	7
Total investment income	85	112	315	439
Expenses:				
Transaction costs	—	(204)	—	2,501
Compensation expense	365	292	1,263	1,899
Professional fees	206	314	1,011	977
Director fees and expenses	75	46	271	453
General and administrative expense	126	81	300	263
Mailing, printing and other expenses	31	17	98	77
Interest expense	—	4	4	13
Taxes	4	4	17	10
Total expenses	807	554	2,964	6,193
Merger termination fee (see note 6)	—	—	—	(2,500)
Total net expenses	807	554	2,964	3,693
Net investment loss	(722)	(442)	(2,649)	(3,254)
Net realized gain (loss):				
Temporary cash investments	3	(1)	4	(5)
Net realized gain (loss)	3	(1)	4	(5)
Net unrealized appreciation of portfolio securities:				
End of period	20,811	12,998	20,811	12,998
Beginning of period	17,812	12,749	14,498	12,262
Net change in net unrealized appreciation of portfolio securities	2,999	249	6,313	736
Net unrealized depreciation of portfolio securities - related party:				
End of period	(1,497)	(1,304)	(1,497)	(1,304)
Beginning of period	(1,575)	(1,375)	(1,036)	(1,990)

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Net change in net unrealized depreciation of portfolio securities - related party	78	71	(461)	686
Net increase (decrease) in net assets resulting from operations	\$2,358	\$(123)	\$3,207	\$(1,837)
Net increase (decrease) in net assets resulting from operations per share:				
Basic and diluted	\$0.17	\$(0.01)	\$0.24	\$(0.14)
Weighted average shares outstanding:				
Basic and diluted	13,518	13,518	13,518	13,286

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

Table of Contents**EQUUS TOTAL RETURN, INC.****STATEMENTS OF CHANGES IN NET ASSETS****(Unaudited)**

(in thousands)	Common Stock			Undistributed Net Investment Losses	Undistributed Net Capital Gains	Unrealized Appreciation of Portfolio Securities, net	Unrealized Depreciation of Portfolio Securities - Related Party	Total Net Assets
	Number of Shares	Par Value	Capital in Excess of Par Value					
Balances at December 31, 2017	13,518	\$ 13	\$55,304	\$ (25,772)	\$ —	\$ 14,498	\$ (1,036)	\$43,007
Share-based incentive compensation	—	—	357	—	—	—	—	357
Net (decrease) increase in net assets resulting from operations	—	—	—	(2,649)	4	6,313	(461)	3,207
Balances at September 30, 2018	13,518	\$ 13	\$55,661	\$ (28,421)	\$ 4	\$ 20,811	\$ (1,497)	\$46,571

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

Table of Contents**EQUUS TOTAL RETURN, INC.****STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended September 30,	
(in thousands)	2018	2017
Reconciliation of increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net increase (decrease) in net assets resulting from operations	\$3,207	\$(1,837)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net realized (gain) loss	(4)	5
Net change in unrealized appreciation of portfolio securities	(6,313)	(736)
Net change in unrealized depreciation of portfolio securities - related party	461	(686)
Share-based incentive compensation	357	1,096
Changes in operating assets and liabilities:		
Net proceeds from dispositions of portfolio securities	—	2,013
Purchases of (proceeds from) temporary cash investments, net	1,007	11,998
Decrease in accounts receivable-due from affiliates	25	25
(Increase) in accrued interest receivable	(294)	(37)
Increase in other assets	(64)	(68)
Decrease in accounts payable and accrued liabilities	(8)	658
Increase (decrease) in accounts payable to related parties	30	(120)
Net cash provided by (used in) operating activities	\$(1,596)	12,311
Cash flows from financing activities:		
Borrowings under margin account	47,985	87,944
Repayments under margin account	(48,988)	(99,946)
Net cash provided by financing activities	(1,003)	(12,002)
Net (decrease) in cash and cash equivalents	(2,599)	309
Cash, cash equivalents and restricted cash at beginning of period	10,975	12,261
Cash, cash equivalents and restricted cash at end of period	\$8,376	\$12,570
Non-cash operating and financing activities:		
Accrued interest exchanged for portfolio securities	\$—	\$12
Dividends exchanged for portfolio securities - related party	\$225	\$192
Supplemental disclosure of cash flow information:		
Interest paid	\$4	\$10
Income taxes paid	\$13	\$21

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS****(Unaudited)**

	Nine months ended September 30,	
	2018	2017
Investment income	\$0.02	\$0.03
Expenses	0.22	0.28
Net investment loss	(0.20)	(0.25)
Net change in unrealized appreciation	0.47	0.06
Net change in unrealized depreciation - related party	(0.03)	0.05
Net increase (decrease) in net assets	0.24	(0.14)
Capital transactions:		
Share-based incentive compensation	0.03	0.08
Dilutive effect of shares issued	—	(0.20)
Increase (decrease) in net assets resulting from capital transactions	0.03	(0.12)
Net (decrease) increase in net assets	0.27	(0.26)
Net assets at beginning of period	3.18	3.37
Net assets at end of period, basic and diluted	\$3.45	\$3.11
Weighted average number of shares outstanding during period, in thousands	13,518	13,286
Market price per share:		
Beginning of period	\$2.40	\$2.01
End of period	\$2.36	\$2.43
Selected information and ratios:		
Ratio of expenses to average net assets	6.62 %	14.62 %
Ratio of net investment loss to average net assets	(5.92 %)	(7.68 %)
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	7.16 %	(4.34 %)
Total return on market price ⁽¹⁾	(1.67 %)	20.90 %

⁽¹⁾ Total return = [(ending market price per share - beginning price per share) / beginning market price per share].

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2018****(Unaudited)***(in thousands, except share data)*

Portfolio Company Control	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value ⁽¹⁾
Investments: Majority-owned (3):						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)		\$ 7,050	\$ 10,500
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	211
Total Control Investments: Majority-owned (represents 19.8% of total investments at fair value)					\$ 10,050	\$ 10,711
Affiliate Investments ⁽⁴⁾ :						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.7%)		\$ 350	\$ 20,500
Total Affiliate Investments (represents 37.8% of total investments at fair value)					\$ 350	\$ 20,500
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	May 2014	518,592 shares of common stock (1.7%)		\$ 6,501	\$ 5,004
Total Non-Affiliate Investments - Related Party (represents 9.2% of total investments at fair value)					\$ 6,501	\$ 5,004
Non-Affiliate Investments (less than 5% owned):						
5 TH Element Tracking, LLC Boston, MA	Business products and services	January 2015	14% promissory note due 5/18 ⁽²⁾	\$ 977	\$ 977	\$ 977
Total Non-Affiliate Investments (represents 1.8% of total investments at fair value)					\$ 977	\$ 977
Total Investment in Portfolio Securities					17,878	37,192
Temporary Cash Investments						
U.S. Treasury Bill	Government	September 2018	UST 0% 10/18	\$ 16,995	\$ 16,995	\$ 16,995

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Total Temporary Cash Investments (represents 31.4% of total investments at fair value)	\$ 16,995	\$ 16,995
Total Investments	\$ 34,873	\$ 54,187

(1) See Note 3 to the financial statements, Valuation of Investments.

(2) Non-income-producing. See Notes 5 and 9 to the financial statements.

(3) Majority owned investments are generally defined under the 1940 Act as companies in which we own more than 50% of the voting securities of the company.

(4) Affiliate investments are generally defined under the 1940 Act as companies in which we own 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 INVESTMENTS – (Continued)

SEPTEMBER 30, 2018

(Unaudited)

Except for our holding of shares of MVC Capital, Inc. (“MVC”), all of our portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933 (hereafter, the “Securities Act”) or other relevant regulatory authority. We negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

As a business development company (“BDC”) regulated pursuant to the Investment Company Act of 1940 (“1940 Act”), we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of September 30, 2018, we held 86.5% of our assets at fair value in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of September 30, 2018, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 83.9% of the total value of the investments in portfolio securities as of September 30, 2018.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called “Shipping products and services” includes one portfolio company and was 44.0% of our net asset value, 32.1% of our total assets and 55.1% of our investments in portfolio company securities (at fair value) as of September 30, 2018. The value of one segment called “Energy” includes one portfolio company and was 22.5% of our net asset value, 16.5% of our total assets and 28.2% of our investments in portfolio company securities (at fair value) as of September 30, 2018. 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 our common stock to a greater extent than would be the case if we were a “diversified” company holding numerous investments.

Our investments in portfolio securities consist of the following types of securities as of September 30, 2018 (in thousands):

Type of Securities

Cost

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		Fair Value	Fair Value as	Percentage of
			<u>Net</u>	
			<u>Assets</u>	
Common stock	\$6,851	\$25,504	54.8	%
Limited liability company investments	10,050	10,711	23.0	%
Secured and subordinated debt	977	977	2.1	%
Total	\$17,878	\$37,192	79.9	%

The following is a summary by industry of the Fund's investments in portfolio securities as of September 30, 2018 (in thousands):

		Fair Value as	
Industry	Fair Value	Percentage of	
		<u>Net</u>	
		<u>Assets</u>	
Shipping products and services	\$20,500	44.0	%
Energy	10,500	22.5	%
Financial services	5,004	10.7	%
Business products and services	977	2.1	%
Media	211	0.6	%
Total	\$37,192	79.9	%

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS****DECEMBER 31, 2017****(Unaudited)***(in thousands, except share data)*

Name and Location of Portfolio Company Control	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value⁽¹⁾
Investments: Majority-owned (3):						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)	\$	7,050	\$ 8,000
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	211
Total Control Investments: Majority-owned (represents 16.7% of total investments at fair value)				\$	10,050	\$ 8,211
Affiliate Investments (4):						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.7%)	\$	350	\$ 16,686
Total Affiliate Investments (represents 34.0% of total investments at fair value)				\$	350	\$ 16,686
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	May 2014	496,208 shares of common stock (1.7%)	\$	6,276	\$ 5,240
Total Non-Affiliate Investments - Related Party (represents 10.7% of total investments at fair value)				\$	6,276	\$ 5,240
Non-Affiliate Investments (less than 5% owned):						
5 TH Element Tracking, LLC Boston, MA	Business products and services	January 2015	14% promissory note due 3/18 ⁽²⁾	\$ 977	\$ 977	\$ 977
Total Non-Affiliate Investments (represents 2.0% of total investments at fair value)				\$	977	\$ 977
Total Investment in Portfolio Securities				\$	17,653	\$ 31,114
Temporary Cash Investments						
U.S. Treasury Bill	Government	September	UST 0% 1/18	\$ 17,998	\$ 17,998	\$ 17,998

Total Temporary Cash Investments (represents 36.6% of total investments at fair value)	\$ 17,998	\$ 17,998
Total Investments	\$ 35,651	\$ 49,112

(1) See Note 3 to the financial statements, Valuation of Investments.

(2) Income-producing.

(3) Majority owned investments are generally defined under the 1940 Act as companies in which we own more than 50% of the voting securities of the company.

(4) Affiliate investments are generally defined under the 1940 Act as companies in which we own 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 INVESTMENTS – (Continued)

DECEMBER 31, 2017

(Unaudited)

Except for our holding of shares of MVC, substantially all of our portfolio securities are restricted from public sale without prior registration under the Securities Act or other relevant regulatory authority. We negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

As a BDC, we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of December 31, 2017, we held 83.2% of our assets at fair value in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2017, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 80.0% of the total value of the investments in portfolio securities as of December 31, 2017.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called “Shipping products and services” includes one portfolio company and was 38.9% of our net asset value, 27.3% of our total assets and 53.6% of our investments in portfolio company securities (at fair value) as of December 31, 2017. The value of one segment called “Energy” includes one portfolio company and was 18.6% of our net asset value, 13.1% of our total assets and 25.7% of our investments in portfolio company securities (at fair value) as of December 31, 2017. 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 our common stock to a greater extent than would be the case if we were a “diversified” company holding numerous investments.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2017 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of
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			Net Assets	
Common stock	\$6,626	\$21,926	51.0	%
Limited liability company investments	10,050	8,212	19.1	%
Secured and subordinated debt	977	977	2.3	%
Total	\$17,653	\$31,115	72.4	%

The following is a summary by industry of the Fund's investments in portfolio securities as of December 31, 2017 (in thousands):

Industry	Fair Value	Fair Value as Percentage of	
			Net Assets
Shipping products and services	\$16,686	38.9	%
Energy	8,000	18.6	%
Financial services	5,240	12.1	%
Business products and services	977	2.3	%
Media	212	0.5	%
Total	\$31,115	72.4	%

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

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EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Unaudited)

(1) Description of Business and Basis of Presentation

Description of Business—Equus Total Return, Inc. (“we,” “us,” “our,” “Equus” and the “Fund”), 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. Our shares trade on the New York Stock Exchange under the symbol ‘EQS’. On August 11, 2006, our shareholders 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.

So long as we remain an investment company and not an operating company as contemplated in our *Plan of Reorganization* described in Note 6 below, we will attempt to maximize the return to stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value of between \$5.0 million and \$75.0 million, although we may engage in transactions with smaller or larger investee companies from time to time. We seek to invest primarily in companies pursuing growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses or special situations. Our income-producing investments may include debt securities including subordinate debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies (or smaller public companies) in transactions negotiated directly with such companies. Given market conditions over the past several years and the performance of our portfolio, our Management and Board of Directors believe it prudent to continue to review alternatives to refine and further clarify the current strategies.

We elected to be treated as a BDC under the 1940 Act. We currently qualify as a regulated investment company (“RIC”) for federal income tax purposes and, therefore, are not required to pay corporate income taxes on any income or gains that we distribute to our stockholders. We have certain wholly owned taxable subsidiaries (“Taxable Subsidiaries”) each of which holds one or more portfolio investments listed on our Schedules of Investments. The purpose of these Taxable Subsidiaries is to permit us to hold certain income-producing investments or portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross revenue for income tax purposes must consist of investment income. Absent

the Taxable Subsidiaries, a portion of the gross income of these income-producing investments or of any LLC (or other pass-through entity) portfolio investment, as the case may be, would flow through directly to us for the 90% test. To the extent that such income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and, therefore, cause us to incur significant federal income taxes. The income of the LLCs (or other pass-through entities) owned by Taxable Subsidiaries is taxed to the Taxable Subsidiaries and does not flow through to us, thereby helping us preserve our RIC status and resultant tax advantages. We do not consolidate the Taxable Subsidiaries for income tax purposes and they may generate income tax expense because of the Taxable Subsidiaries' ownership of the portfolio companies. We reflect any such income tax expense on our Statements of Operations.

Basis of Presentation—In accordance with Article 6 of Regulation S-X under the Securities Act and the Securities Exchange Act of 1934, as amended ("Exchange Act"), we do not consolidate portfolio company investments, including those in which we have a controlling interest. Our interim unaudited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("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 Exchange Act. Accordingly, they are unaudited and exclude some disclosures required for annual financial statements. We believe that we have 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 September 30, 2018 are not necessarily indicative of results that ultimately may be achieved for the remainder of the year. The interim unaudited financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission ("SEC").

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(2)Liquidity and Financing Arrangements

Liquidity—There are several factors that may materially affect our liquidity during the reasonably foreseeable future. We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We have followed valuation techniques in a consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and, to the extent we remain a BDC, to finance routine follow-on investments, if any, through the next twelve months.

Cash and Cash Equivalents—As of September 30, 2018, we had cash and cash equivalents of \$8.2 million. We had \$37.2 million of our net assets of \$46.6 million invested in portfolio securities. We also had \$17.2 million of restricted cash and temporary cash investments, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC to maintain our pass-through tax treatment. Of this amount, \$17.0 million was invested in U.S. Treasury bills and \$0.2 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured on October 4, 2018 and we subsequently repaid this margin loan, plus interest. The margin interest was paid on November 5, 2018.

As of December 31, 2017, we had cash and cash equivalents of \$10.8 million. We had \$31.1 million of our net assets of \$43.0 million invested in portfolio securities. We also had \$18.2 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$18.0 million was invested in U.S. Treasury bills and \$0.2 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured January 4, 2018 and we subsequently repaid this margin loan. The margin interest was paid on February 5, 2018.

Dividends—So long as we remain a BDC, we will pay out net investment income and/or realized net capital gains, if any, on an annual basis as required under the 1940 Act.

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

As of September 30, 2018, we had no outstanding commitments to our portfolio company investments.

RIC Borrowings, Restricted Cash and Temporary Cash Investments—We may periodically borrow sufficient funds to maintain the Fund’s RIC status by utilizing a margin account with a securities brokerage firm. We cannot assure you that any such arrangement will be available in the future. If we are unable to borrow funds to make qualifying investments, we may no longer qualify as a RIC. We 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. If we remain a BDC and do not consummate our Consolidation and, therefore, do not become an operating company as described in Note 6 – *Plan of Reorganization* below, our failure to continue to qualify as a RIC could be materially adverse to us and our stockholders.

As of September 30, 2018, we borrowed \$17.0 million to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary cash investments in U.S. Treasury bills of \$17.2 million.

As of December 31, 2017, we borrowed \$18.0 million to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary cash investments in U.S. Treasury bills of \$18.2 million.

Certain Risks and Uncertainties—Market and economic volatility which has become endemic in the past few years has resulted in a relatively limited amount of available debt financing for small and medium-sized com