EQUUS TOTAL RETURN, INC.
Form 10-Q
November 16, 2009
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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 September 30, 2009

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 0-19509

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 November 16, 2009. The net asset value of a share at September 30, 2009 was $7.41.

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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)	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at $36,864 and $36,808 respectively)	$ 35,167	$ 37,190
Affiliate investments (cost at $18,672 and $18,353 respectively)	11,322	20,974
Non-affiliate investments (cost at $17,804 and $16,930 respectively)	11,009	10,872
Total investments in portfolio securities at fair value	57,498	69,036
Restricted cash & temporary investments, at cost which approximates fair value	34,338	45,419
Cash	1,496	71
Temporary cash investments, at cost which approximates fair value	5,246	8,585
Accounts receivable and other	54	8
Accrued interest and dividends receivable due from portfolio securities	1,099	944
Total assets	$ 99,731	$ 124,063
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 101	$ 204
Due to adviser		455
Borrowing under margin account	33,998	44,969
Total liabilities	34,099	45,628
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 8,565 shares outstanding, respectively	9	9
Additional paid-in capital	85,926	85,966
Undistributed net investment losses	(4,461)	(4,485)
Unrealized depreciation of portfolio securities, net	(15,842)	(3,055)
Total net assets	$ 65,632	$ 78,435
Net assets per share	$ 7.41	$ 9.16

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 SEPTEMBER 30, 2009 AND 2008

(Unaudited)

(in thousands, except per share amounts)	**2009**	**2008**
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	$ 809	$ 221
Affiliate investments	13	216
Non-affiliate investments	501	(233)
Total interest and dividend income	1,323	204
Interest from temporary cash investments	6	88
Total investment income	1,329	292
Expenses:		
Management fee		463
Administrative fee		113
Incentive fee		14
Professional fees	375	179
Compensation expense	259	
Director fees and expenses	111	89
General and adminsitrative expense	81	
Mailing, printing and other expenses	52	55
Interest expense	11	4
Total expenses	889	917
Net investment income (loss)	440	(625)
Net realized gain (loss):		
Control investments		(1)
Affiliate investments		
Non-affiliate investments		
Temporary cash investments	(6)	
Total net realized gain (loss)	(6)	(1)
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	(15,842)	12,695
Beginning of period	(8,043)	17,129
Net change in unrealized appreciation (depreciation) of portfolio securities	(7,799)	(4,434)
Net increase (decrease) in net assets resulting from operations	$ (7,365)	$ (5,060)
Net increase (decrease) in net assets resulting from operations per share:		
Basic and diluted	$ (0.83)	$ (0.60)

Weighted average shares outstanding, in thousands		
Basic and diluted	8,862	8,497

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(Unaudited)

(in thousands, except per share amounts)	2009	2008
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	$ 1,361	$ 605
Affiliate investments	37	677
Non-affiliate investments	1,510	611
Total interest and dividend income	2,908	1,893
Interest from temporary cash investments	41	480
Total investment income	2,949	2,373
Expenses:		
Management fee	714	1,485
Administrative fee	226	338
Incentive fee		124
Professional fees	1,014	566
Director fees and expenses	356	323
Compensation expense	259	
Mailing, printing and other expenses	212	226
General and administrative expense	81	
Interest expense	33	20
Taxes	30	10
Total expenses	2,925	3,092
Net investment income (loss)	24	(719)
Net realized gain (loss):		
Control investments		626
Affiliate investments		351
Non-affiliate investments		
Temporary cash investments	(38)	
Total net realized gain (loss)	(38)	977
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	(15,842)	12,695
Beginning of period	(3,055)	16,818
Net change in unrealized appreciation (depreciation) of portfolio securities	(12,787)	(4,123)
Net increase (decrease) in net assets resulting from operations	$ (12,801)	$ (3,865)
Net increase (decrease) in net assets resulting from operations per share:		
Basic and diluted	$ (1.46)	$ (0.46)
Weighted average shares outstanding, in thousands		

Basic and diluted	8,766	8,475

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(Unaudited)

(in thousands)	2009	2008
Increase (decrease) in net assets from operations:		
Net investment income (loss)	$ 24	$ (719)
Net realized gain (loss)	(38)	977
Net change in unrealized appreciation (depreciation) of portfolio securities	(12,787)	(4,123)
Net increase (decrease) in net assets resulting from operations	(12,801)	(3,865)
Capital share transactions:		
Dividends declared	(921)	(4,026)
Shares issued in dividend	919	1,920
Repurchase of common stock		(3,010)
Decrease in net assets resulting from capital share transactions	(2)	(5,116)
Decrease in net assets	(12,803)	(8,981)
Net assets at beginning of period	78,435	103,216
Net assets at end of period	$ 65,632	$ 94,235

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(Unaudited)

(in thousands)	2009	2008
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	$ (12,801)	$ (3,865)
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	38	(977)
Net change in unrealized (appreciation) depreciation of portfolio securities	12,787	4,123
Amortization of original issue discount and origination fees		166
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(720)	(18,808)
Proceeds from dispositions of securities	916	3,915
Sales (purchases) of restricted temporary cash investments	11,043	(25,248)
(Increase) decrease in accounts receivable and other	(46)	99
Increase in accrued interest receivable due from portfolio securities	(1,600)	(514)
Decrease in accrued escrowed receivables		262
Decrease in accounts payable and accrued liabilities	(103)	(52)
Decrease in due to adviser	(455)	(822)
Net cash provided by (used in) operating activities	9,059	(41,721)
Cash flows from financing activities:		
Borrowings under margin account	117,038	140,992
Repayments under margin account	(128,009)	(115,994)
Dividends paid	(2)	(2,106)
Repurchase of common stock		(3,010)
Net cash provided by (used in) financing activities	(10,973)	19,882
Net decrease in cash and cash equivalents	(1,914)	(21,839)
Cash and cash equivalents at beginning of period	8,656	30,940
Cash and cash equivalents at end of period	$ 6,742	$ 9,101
Non-cash financing activities:		
Shares issued in lieu of cash dividend	$ 919	$ 1,920
Accrued interest or dividends exchanged for portfolio securities	$ 1,445	$ 358
Supplemental disclosure of cash flow information:		
Interest paid	$ 42	$ 16
Income taxes paid	$ 17	$ 10

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(Unaudited)

	2009	2008
Investment income	$ 0.34	$ 0.28
Expenses	0.34	0.36
Net investment income (loss)	0.00	(0.08)
Net realized gain (loss)	(0.00)	0.12
Net change in unrealized appreciation (depreciation) of portfolio securities	(1.46)	(0.49)
Net increase (decrease) in net assets resulting from operations	(1.46)	(0.45)
Capital share transactions:		
Dividend declared	(0.11)	(0.47)
Share repurchase		(0.36)
Dilutive effect of shares issued in common stock dividend	(0.18)	0.40
Decrease in net assets resulting from capital transactions	(0.29)	(0.43)
Net decrease in net assets	(1.75)	(0.88)
Net assets at beginning of period	9.16	12.29
Net assets at end of period, basic and diluted	$ 7.41	$ 11.41
Weighted average number of shares outstanding during period, in thousands	8,766	8,475
Market value per share at end of period	$ 3.22	$ 6.20
Ratio of expenses to average net assets	4.06%	3.13%
Ratio of net investment income (loss) to average net assets	0.03%	(0.73)%
Ratio of net increase (decrease) in net assets resulting from operations to average net	(17.77)%	(3.91)%
Total return on market price*	(22.62)%	5.77%

* Adjusted for dividends and can be calculated as the September 30, 2009 market value plus year-to-date dividends declared less the December 31, 2008 market value, divided by the December 31, 2008 market value.

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, 2009

(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(3)
				(amounts in thousands)		
Control investments: Majority-owned (6):						
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	
					9,910	7,852
Miami, FL			8% promissory notes	$ 9,910		
Sovereign Business Forms, Inc.	Business products and services	August 1996	1,214,630 shares of common stock		5,080	3,984
					3,250	3,250
Houston, TX			12% promissory notes(1)	3,250		
Spectrum Management, LLC	Business products and services	December 1999	285,000 units of Class A member interest		2,850	4,338
			16% subordinated promissory note(1)		1,690	1,690
Carrollton, TX				1,690		
Total Control investments: Majority-owned (represents 45.4% of total investments at fair value)					**$ 27,845**	**$ 26,114**
Control Investments: Non-majority owned(5):						
ConGlobal Industries Holding, Inc.	Shipping products and services	February 1997	24,397,303 shares of common stock		$ 1,370	$ 2,178
					6,875	6,875
San Ramon, CA			7% promissory note (1)(2)	$ 6,875		
HealthSPAC, LLC	Healthcare	December 2006	Member interest (40%)		40	
El Segundo, CA			12% promissory note	734	734	
Total Control Investments: Non-majority Owned (represents 15.7% of total investments at fair value)					**$ 9,019**	**$ 9,053**
Total Control Investments: (represents 61.2% of total investments at fair value)					**$ 36,864**	**$ 35,167**
Affiliate Investments(4):						
Infinia Corporation	Alternative energy	June 2007	666,667 Class A shares preferred stock 160,720 Class B shares preferred stock		$ 3,000	$ 6,840
					5,000	3,662
Kennewick, WA			Option to purchase 16,000 shares of common stock at $6.35 per share through December 19, 2012			120
Nickent Golf, Inc.	Entertainment and leisure	June 2007	13% promissory note	$ 6,699	6,699	50
				50	50	
City of Industry, CA					3,000	50
			8% promissory note			
			3,000,000 shares Class A convertible preferred stock			
			Warrants to buy 15,000 shares of common stock at $1 per share through March 17, 2013			

			Warrants to buy 600,815 shares of common stock at $1.00 per share through August 16, 2010, warrant terms subject to change		
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock	350	
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.2%)	573	600
Total Affiliate Investments (represents 19.7% of total investments at fair value)				**$ 18,672**	**$ 11,322**

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, 2009

(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment(4)	Investment	Principal	Cost of Investment	Fair Value(3)
				(amounts in thousands)		
Non-Affiliate Investments (less than 5% owned):						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note(1)(2)	$ 3,516	$ 3,516	$ 3,516
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% promissory note(1)(2)	3,114	3,114	3,114
Creekstone Florida Holdings, LLC Houston, TX	Real estate	December 2005	17-19.8% subordinated promissory note	4,000	4,000	
London Bridge Entertainment Partners Ltd London UK	Entertainment and leisure	August 2008	18% promissory note(1)(2)	2,654	2,654	2,654
Metic Group, PLC London, UK	Commercial building products	August 2008	1,830,660 shares common stock		1,000	
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	
Trulite, Inc. El Dorado Hills, CA	Alternative energy	August 2008	18% promissory note(1)(2) Warrant to buy 6,809,211 shares of common stock through July 2015	1,725	1,725	1,725
Total Non-Affiliate Investments (represents 19.2% of total investments at fair value)					**$ 17,804**	**$ 11,009**
Total Investments					**$ 73,340**	**$ 57,498**

(1) Income-producing. All other securities are considered non-income producing.
(2) Income on these securities is paid-in-kind by the issuance of additional securities or through accretion of original issue discount.
(3) See Business Valuation.
(4) 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.
(5) 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.
(6) 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.

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, 2009

(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 83.9% of the total value of the investments in portfolio securities as of September 30, 2009.

The Fund s investments in portfolio securities consist of the following types of securities as of September 30, 2009 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$ 44,217	$ 30,776	46.9%
Preferred stock	12,795	10,502	16.0%
Limited liability company investments	8,527	9,938	15.1%
Common stock	7,801	6,162	9.4%
Options and warrants		120	0.2%
Total	$ 73,340	$ 57,498	87.6%

Four notes receivable included in secured and subordinated debt with an estimated fair value of $17.9 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 on notes aggregating $4.9 million in fair value, while no cash payments are being received on notes aggregating $8.0 million in fair value.

The following is a summary by industry of the Fund s investments in portfolio securities as of September 30, 2009 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Entertainment and leisure	$ 17,236	26.3%
Alternative energy	12,347	18.8%
Business products and services	13,262	20.2%
Shipping products and services	9,053	13.8%
Media	5,000	7.6%
Healthcare	600	0.9%
Commercial building products		0.0%
Real estate		0.0%
Total	$ 57,498	87.6%

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, 2008

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(3)
				(amounts in thousands)		
Control investments: Majority-owned(6):						
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	
					9,560	7,437
Miami, FL			8% promissory notes	$ 9,560		
Sovereign Business Forms, Inc.(7)	Business products and services	August 1996	1,214,630 shares of common stock(1)		5,080	4,800
					3,250	3,250
Houston, TX			12% promissory notes(1)	3,250		
Spectrum Management, LLC	Business products and services	December 1999	285,000 units of Class A member interest		2,850	6,419
					1,690	1,690
Carrollton, TX			16% subordinated promissory note(1)	1,690		
Total Control investments: Majority-owned (represents 41.4% of total investments at fair value)					**$ 27,495**	**$ 28,596**
Control Investments: Non-majority owned(5):						
ConGlobal Industries Holding, Inc.	Shipping products and services	February 1997	24,397,303 shares of common stock		$ 1,370	$ 790
San Ramon, CA			7% promissory note (1)(2)	3,570	3,570	3,570
			Member interest in (100%) CCI-ANI		2,734	2,989
			Finance, LLC			
			Member interest (66.7%) in JL Madre, LLC(1)		865	936
HealthSPAC, LLC	Healthcare	December 2006	Member interest (40%)		40	40
El Segundo, CA			12% promissory note	734	734	269
Total Control Investments: Non-majority Owned (represents 12.5% of total investments at fair value)					**$ 9,313**	**$ 8,594**
Total Control Investments: (represents 53.9% of total investments at fair value)					**$ 36,808**	**$ 37,190**
Affiliate Investments(4):						
Infinia Corporation	Alternative energy	June 2007	666,667 Class A shares preferred stock		$ 3,000	$ 14,973
Kennewick, WA						
			160,720 Class B shares preferred stock		5,000	5,000
			Option to purchase 16,000 shares of common			336

			stock at $6.35 per share through December 19, 2012			
Nickent Golf, Inc. City of Industry, CA	Entertainment and leisure	June 2007	13% promissory note	$ 6,430	6,430	180
			3,000,000 shares Class A Convertible preferred stock		3,000	
			Warrants to buy 15,000 shares of common stock at $1 per share through March 17, 2013			
			Warrants to buy 600,815 shares of common stock at $1.00 per share through August 16, 2010, warrant terms subject to change			
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock		350	
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.2%)		573	485
Total Affiliate Investments (represents 30.4% of total investments at fair value)					**$ 18,353**	**$ 20,974**

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

DECEMBER 31, 2008 (Continued)

Name and Location of Portfolio Company	**Industry**	**Date of Initial Investment**	**Investment**	**Principal**	**Cost of Investment**	**Fair Value(3)**
				(amounts in thousands)		
Non-Affiliate Investments (less than 5% owned):						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note(1)(2)	$ 3,135	$ 3,135	$ 3,135
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% promissory note(1)	3,000	3,000	3,000
Creekstone Florida Holdings, LLC Houston, TX	Real estate	December 2005	17-19.8% subordinated promissory note	4,000	4,000	
London Bridge Entertainment Partners Ltd New York, NY	Entertainment and leisure	August 2008	18% promissory note(1)	2,500	2,500	2,500
Metic Group, PLC London, UK	Commercial building products	August 2008	1,830,660 shares common of stock		1,000	737
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	
Trulite, Inc. El Dorado Hills, CA	Alternative energy	August 2008	15% promissory note(1) Warrant to buy 3,947,368 shares of common stock through July 2013	1,500	1,500	1,500
Total Non-Affiliate Investments (represents 15.7% of total investments at fair value)					**$ 16,930**	**$ 10,872**
Total Investments					**$ 72,091**	**$ 69,036**

(1) Income-producing. All other securities are considered non-income producing.
(2) Income on these securities is paid-in-kind by the issuance of additional securities or through accretion of original issue discount.

(3) See Business Valuation.

(4) 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.

(5) 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.

(6) 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.

(7) In May 2008, Sovereign restructured its ownership and debt. As a result, the Fund s ownership interest increased to majority-owned control investment.

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, 2008

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 86.4% of the total value of the investments in portfolio securities as of December 31, 2008.

The Fund s investments in portfolio securities consist of the following types of securities at December 31, 2008 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$ 39,369	$ 26,531	33.8%
Preferred stock	12,795	19,973	25.5%
Limited liability company investments	12,127	15,869	20.2%
Common stock	7,800	6,327	8.1%
Options and warrants		336	0.4%
Total	$ 72,091	$ 69,036	88.0%

Two notes receivable included in secured and subordinated debt with an estimated fair value of $6.7 million provide that all or a portion 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 on notes aggregating $12.1 million in fair value, while no cash payments are being received for notes totaling $7.7 million.

The following is a summary by industry of the Fund s investments as of December 31, 2008 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Alternative energy	$ 21,809	27.8%
Entertainment and leisure	16,252	20.7%
Business products and services	16,159	20.6%
Shipping products and services	8,285	10.6%
Media	5,000	6.4%
Healthcare	794	1.0%
Commercial building products	737	0.9%
Total	$ 69,036	88.0%

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, 2009 AND 2008

(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 new 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 internally. The Fund may also invest in recapitalizations of existing businesses or special situations from time to time. The Fund s investments in portfolio companies consist principally of equity securities such as common and preferred stock, but also include other equity-oriented securities such as debt convertible into common or preferred stock or debt combined with warrants, options or other rights to acquire common or preferred stock. 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). Following shareholder approval on June 30, 2005, the Fund entered into an 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.

The Fund has decided to further the total return investment objective, with authorization from the Board of Directors (which includes all of the Fund s independent directors) and approval of a majority of the shareholders, by amending the Fund s Restated Certificate of Incorporation to change the name of the Fund from Equus II Incorporated to Equus Total Return, Inc. This proposal was approved by a majority of the shareholders on August 11, 2006.

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 and nine months ended September 30, 2009 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

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December 31, 2008, as filed with the SEC. Certain prior period information has been reclassified to conform to current period presentation.

(2) Liquidity and Financing Arrangements

Certain Risks and Uncertainties Economic conditions during 2008 and 2009 along with 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 this period, the price of our common stock fell 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 deleveraging our balance sheet, and 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 renegotiation of our debt agreements. Although there can be no assurances that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our 2010 operating requirements.

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 September 30, 2010.

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. If called upon to make follow-on commitments to certain portfolio companies, the Fund has a secured $7.5 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 capital commitments through the next twelve months.

On June 12, 2009, the Fund and its Board of Directors announced plans to internalize Fund management. The Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations. In pursuing the course of internalized management, the Board, among other things, seeks to enhance the Fund s liquidity position and achieve a lower operational cost structure.

Cash and Temporary Investments As of September 30, 2009, the Fund had cash and temporary cash investments of $6.7 million. The Fund had $57.5 million of its net assets of $65.6 million invested in portfolio securities. Restricted assets totaled $34.3 million, of which $34.0 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 October 1, 2009.

As of December 31, 2008, the Fund had cash and temporary cash investments of $8.7 million. The Fund had $69.0 million of its net assets of $78.4 million invested in portfolio securities. Restricted assets totaled $45.4 million, of which $45.0 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 $0.4 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 2, 2009.

Dividends 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. 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.

On February 27, 2009, the Fund announced the declaration of a first quarter dividend of $0.1075 per share in accordance with the Fund s revised managed distribution policy, pursuant to which it intends to pay quarterly dividends at an annualized rate equal to 10% of the Fund s market value based on the 2008 year-end closing price of $4.30. A dividend in the amount of $0.9 million was payable on March 30, 2009 to shareholders of record as of March 9, 2009. 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. The classification of this dividend as between ordinary income, capital gain and return of capital will not be known until December 31, 2009, since any purchase or sale of a portfolio company during the remainder of the year will affect the classification.

The Fund paid a $0.158 dividend for shareholders of record as of the close of business on February 29, 2008 on March 31, 2008. The Fund paid $0.7 million in cash, and issued 95,023 additional shares of its common stock at an effective price of $6.71 per share, in payment of such dividend.

The Fund paid a $0.158 dividend to shareholders of record as of August 25, 2008 on September 29, 2008 . A dividend in the amount of $1.4 million was paid. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by September 22, 2008. The Fund paid $0.7 million in cash and issued 103,702 additional shares at an effective price of $6.62 per share.

A dividend in the amount of $1.3 million was paid on June 30, 2008, to shareholders of record as of May 27, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by June 23, 2008. The Fund paid $0.7 million in cash, and issued 84,727 additional shares of its common stock at an effective price of $7.04 per share.

Revolving Line of Credit Agreement On August 13, 2008, the Fund entered into a $7.5 million revolving line of credit agreement (the Credit Facility) with Amegy Bank. The Fund can borrow up to $7.5 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

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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 September 30, 2009. To date, the Fund has not borrowed any amounts under the Credit Facility.

Commitments As of September 30, 2009, the Fund had a total commitment of $0.5 million to Trulite, Inc. in the energy sector.

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 September 30, 2009 and December 31, 2008, 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 September 30, 2009, the Fund borrowed $34.0 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 $34.3 million. The U.S. Treasury bills were sold and the total amount borrowed was repaid on October 1, 2009.

As of December 31, 2008, the Fund borrowed $45.0 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 $45.4 million. The U.S Treasury bills were sold on January 2, 2009 and the total amount borrowed was repaid at that time.

(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 Securities and Exchange Commission (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.

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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. Fair valuations are necessarily subjective and management s estimate of values 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.

Appraisal valuations are based upon such factors as a portfolio company s earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company s current and future financial prospects, any data from third-party valuation firms, and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value.

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 the Adviser s 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.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $57.5 million and $69.0 million as of September 30, 2009 and December 31, 2008, 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. As of December 31, 2008, one of the Fund s portfolio securities, Metic Group, PLC, was publicly listed on the AIM. The securities were subsequently de-listed on June 30, 2009. Fair values do not reflect brokers fees or other normal selling costs which might become payable on disposition of such investments. 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.

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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 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 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.

In May 2006, the State of Texas enacted a bill that replaced the existing franchise tax with a margin tax. Effective January 1, 2007, the margin tax applies to legal entities conducting business in Texas, including previously non-taxable entities such as limited