

EQUUS TOTAL RETURN, INC.

Form 10-Q

May 14, 2009

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**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 March 31, 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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**2727 Allen Parkway, 13th Floor Houston, Texas**  
(Address of principal executive offices)

**77019**  
(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 May 14, 2009. The net asset value of a share at March 31, 2009 was \$8.96.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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**Table of Contents**EQUUS TOTAL RETURN, INC.BALANCE SHEETS

<b>(in thousands, except per share amounts)</b>	<b>March 31, 2009 (unaudited)</b>	<b>December 31, 2008</b>
<u>Assets</u>		
Investments in portfolio securities at fair value:		
Control investments (cost at \$37,215 and \$36,808 respectively)	\$ 37,092	\$ 37,190
Affiliate investments (cost at \$18,673 and \$18,353 respectively)	22,773	20,974
Non-affiliate investments (cost at \$17,262 and \$16,930 respectively)	11,344	10,872
Total investments in portfolio securities at fair value	71,209	69,036
Restricted cash & temporary investments, at cost which approximates fair value	42,420	45,419
Cash	53	71
Temporary cash investments, at cost which approximates fair value	7,254	8,585
Accounts receivable	10	8
Accrued interest and dividends receivable due from portfolio companies	1,063	944
Total assets	\$ 122,009	\$ 124,063
<u>Liabilities and net assets</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 251	\$ 204
Due to adviser	362	455
Borrowing under margin account	42,000	44,969
Total liabilities	42,613	45,628
<u>Commitments and contingencies</u>		
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	85,940	85,966
Undistributed net investment losses	(4,612)	(4,485)
Unrealized depreciation of portfolio securities, net	(1,941)	(3,055)
Total net assets	\$ 79,396	\$ 78,435
Net assets per share	\$ 8.96	\$ 9.16

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

**Table of Contents**EQUUS TOTAL RETURN, INC.STATEMENTS OF OPERATIONSFOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Unaudited)

<b>(in thousands, except per share amounts)</b>	<b>2009</b>	<b>2008</b>
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	\$ 311	\$ 395
Affiliate investments	25	247
Non-affiliate investments	548	441
Total interest and dividend income	884	1,083
Interest from temporary cash investments	21	251
Total investment income	905	1,334
Expenses:		
Management fee	362	502
Incentive fee		17
Professional fees	346	173
Administrative fees	113	113
Director fees and expenses	105	90
Mailing, printing and other expenses	88	24
Interest expense	11	6
Taxes	7	
Total expenses	1,032	925
Net investment income (loss)	(127)	409
Net realized gain (loss) on:		
Control investments		74
Affiliate investments		351
Non-affiliate investments		
Temporary cash investments	(24)	
Total net realized gain (loss)	(24)	425
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	(1,941)	17,118
Beginning of period	(3,055)	16,818
Net change in unrealized appreciation (depreciation) of portfolio securities	1,114	300
Net increase in net assets resulting from operations	\$ 963	\$ 1,134
Net increase in net assets resulting from operations per share:		
Basic and diluted	\$ 0.11	\$ 0.13
Weighted average shares outstanding, in thousands		
Basic and diluted	8,572	8,402

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

**Table of Contents****EQUUS TOTAL RETURN, INC.****STATEMENTS OF CHANGES IN NET ASSETS****FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008**

(Unaudited)

(in thousands)	2009	2008
<b>Increase (decrease) in net assets from operations:</b>		
Net investment income (loss)	\$ (127)	\$ 409
Net realized gain (loss)	(24)	425
Net change in unrealized appreciation (depreciation) of portfolio securities	1,114	300
<b>Net increase in net assets resulting from operations</b>	<b>963</b>	<b>1,134</b>
<b>Capital share transactions:</b>		
Dividends declared	(921)	(1,327)
Shares issued in dividend	919	638
<b>Decrease in net assets resulting from capital share transactions</b>	<b>(2)</b>	<b>(689)</b>
Increase in net assets	961	445
Net assets at beginning of period	78,435	103,216
<b>Net assets at end of period</b>	<b>\$ 79,396</b>	<b>\$ 103,661</b>

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**Table of Contents**EQUUS TOTAL RETURN, INC.STATEMENTS OF CASH FLOWSFOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Unaudited)

(in thousands)	2009	2008
Reconciliation of increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net increase in net assets resulting from operations	\$ 963	\$ 1,134
Adjustments to reconcile increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized (gain) loss	24	(425)
Net change in unrealized appreciation of portfolio securities	(1,114)	(300)
Amortization of original issue discount and origination fees		12
Change in operating assets and liabilities		
Purchase of portfolio securities	(670)	(10,600)
Proceeds from dispositions of securities		3,292
Sales (purchases) of restricted temporary cash investments	2,975	(5,053)
(Increase) decrease in accounts receivable	(2)	99
Increase in accrued interest receivable due from portfolio companies	(508)	(587)
Increase in accounts payable and accrued liabilities	47	2
Decrease in due to adviser	(93)	(244)
Net cash provided by (used in) operating activities	\$ 1,622	\$ (12,670)
Cash flows from financing activities:		
Bank overdraft		262
Borrowings under margin account	42,000	34,999
Repayments under margin account	(44,969)	(29,996)
Dividends paid	(2)	(689)
Net cash provided by (used in) financing activities	(2,971)	4,576
Net decrease in cash and cash equivalents	(1,349)	(8,094)
Cash and cash equivalents at beginning of period	8,656	30,940
Cash and cash equivalents at end of period	\$ 7,307	\$ 22,846
Non-cash financing activities:		
Shares issued in lieu of cash dividend	\$ 919	\$ 638
Accrued interest or dividends exchanged for portfolio securities	\$ 389	\$ 233
Supplemental disclosure of cash flow information:		
Interest paid	\$ 23	\$ 11
Income taxes paid	\$	\$

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 RATIOSFOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Unaudited)

	<b>2009</b>	<b>2008</b>
Investment income	\$ 0.11	\$ 0.16
Expenses	0.12	0.11
Net investment income (loss)	(0.01)	0.05
Net realized gain (loss)	(0.00)	0.05
Net change in unrealized appreciation of portfolio securities	0.13	0.04
Net increase in net assets resulting from operations	0.12	0.14
Capital Transactions:		
Dividend declared	(0.11)	(0.16)
Dilutive effect of shares issued in common stock dividend	(0.21)	(0.07)
Decrease in net assets resulting from capital transactions	(0.32)	(0.23)
Net decrease in net assets	(0.20)	(0.09)
Net assets at beginning of period	9.16	12.29
Net assets at end of period, basic and diluted	\$ 8.96	\$ 12.20
Weighted average number of shares outstanding during period, in thousands	8,572	8,402
Market value per share at end of period	\$ 2.85	\$ 6.75
Ratio of expenses to average net assets	1.31%	0.89%
Ratio of net investment income (loss) to average net assets	(0.16)%	0.40%
Ratio of net increase in net assets resulting from operations to average net assets	1.22%	1.10%
Total return (loss) on market price*	(31.22)%	9.48%

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

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

**Table of Contents****EQUUS TOTAL RETURN, INC.****SCHEDULE OF PORTFOLIO SECURITIES****March 31, 2009****(Unaudited)**

<b>Name and Location of Portfolio Company</b>	<b>Industry</b>	<b>Date of Initial Investment(4)</b>	<b>Investment</b>	<b>Cost of Principal Investment</b>	<b>Fair Value(3)</b>
<b>Control investments: Majority-owned (7):</b>					
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)	\$ 5,000	\$ 5,000
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%) 8% promissory notes	\$ 9,910	65 9,910 7,721
Sovereign Business Forms, Inc.(8) Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock(1) 12% promissory notes(1)	5,080 3,250	4,322 3,250 3,250
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest 16% subordinated promissory note(1)	2,850 1,690	7,335 1,690 1,690
<b>Total Control investments: Majority-owned (represents 41.2% of total investments at fair value)</b>				<b>\$ 27,845</b>	<b>\$ 29,318</b>
<b>Control Investments: Non-majority owned(6):</b>					
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock 7% promissory note Member interest in CCI-ANI Finance, LLC Member interest (66.7%) in JL Madre, LLC(1)	\$ 1,370 \$ 3,627	3,627 2,975 865 936
HealthSPAC, LLC El Segundo, CA	Healthcare	December 2006	Member interest (40%) 12% promissory note	734	40 734 309
<b>Total Control Investments: Non-majority Owned (represents 10.9% of total investments at fair value)</b>				<b>\$ 9,370</b>	<b>\$ 7,774</b>
<b>Total Control Investments: (represents 52.1% of total investments at fair value)</b>				<b>\$ 37,215</b>	<b>\$ 37,092</b>
<b>Affiliate Investments(5):</b>					
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	666,667 Class A shares preferred stock 160,720 Class B shares preferred stock Option to purchase 16,000 shares of common stock at \$6.35 per share through December 19, 2012	\$ 3,000 5,000	\$ 16,729 5,000 369

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Nickent Golf, Inc. City of Industry, CA	Entertainment and leisure	June 2007	13% 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	\$ 6,750	\$ 6,750 3,000	190
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
<b>Total Affiliate Investments (represents 32.0% of total investments at fair value)</b>					<b>\$ 18,673</b>	<b>\$ 22,773</b>

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

**Table of Contents****EQUUS TOTAL RETURN, INC.****SCHEDULE OF PORTFOLIO SECURITIES (Continued)****March 31, 2009****(Unaudited)**

<b>Name and Location of Portfolio Company</b>	<b>Industry</b>	<b>Date of Initial Investment(4)</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost of Investment</b>	<b>Fair Value(3)</b>
				<i>(amounts in thousands)</i>		
<b>Non-Affiliate Investments (less than 5% owned):</b>						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note(1)(2)	\$ 3,379	\$ 3,379	\$ 3,379
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% promissory note(1)	3,038	3,038	3,038
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)	2,550	2,550	2,550
Metic Group, PLC London, UK	Commercial building products	August 2008	1,830,660 shares common of stock(2)		1,000	877
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. Houston, TX	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
<b>Total Non-Affiliate Investments (represents 15.9% of total investments at fair value)</b>				<b>\$ 17,262</b>	<b>\$ 17,262</b>	<b>\$ 11,344</b>
<b>Total Investments</b>				<b>\$ 73,150</b>	<b>\$ 73,150</b>	<b>\$ 71,209</b>

(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.

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- (3) See Business Valuation.
- (4) Investments subsequent to June 30, 2005 were selected by the Adviser.
- (5) 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.
- (6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.
- (7) 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.
- (8) 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.

**Table of Contents****EQUUS TOTAL RETURN, INC.****SCHEDULE OF PORTFOLIO SECURITIES (Continued)****March 31, 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 86.2% of the total value of the investments in portfolio companies as of March 31, 2009.

The Fund's investments in portfolio securities consist of the following types of securities as of March 31, 2009 (in thousands):

<b>Type of Securities</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Fair Value as Percentage of Net Assets</b>
Secured and subordinated debt	\$ 40,428	\$ 27,181	34.2%
Preferred stock	12,795	21,729	27.4%
Limited liability company investments	12,126	16,731	21.1%
Common stock	7,801	5,199	6.5%
Options and warrants		369	0.5%
<b>Total</b>	<b>\$ 73,150</b>	<b>\$ 71,209</b>	<b>89.7%</b>

Five notes receivable included in secured and subordinated debt with an estimated fair value of \$15.8 million provide that all or a portion of interest is paid in kind or that 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 \$3.2 million in fair value, while no cash payments are being received on notes aggregating \$8.2 million in fair value.

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

<b>Industry</b>	<b>Fair Value</b>	<b>Fair Value as Percentage of Net Assets</b>
Alternative energy	\$ 23,598	29.7%
Entertainment and leisure	16,878	21.3%
Business products and services	16,597	20.9%
Shipping products and services	7,465	9.4%
Media	5,000	6.3%
Commercial Building Produces	877	1.1%
Healthcare	794	1.0%
Real estate		0.0%
<b>Total</b>	<b>\$ 71,209</b>	<b>89.7%</b>

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



**Table of Contents****EQUUS TOTAL RETURN, INC.****SCHEDULE OF PORTFOLIO SECURITIES****DECEMBER 31, 2008**

<b>Name and Location of Portfolio Company</b>	<b>Industry</b>	<b>Date of Initial Investment(4)</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost of Investment</b>	<b>Fair Value(3)</b>
<b>Control investments: Majority-owned(7):</b>						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)	\$	5,000	\$ 5,000
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%) 8% promissory notes		65 9,560	7,437
Sovereign Business Forms, Inc.(8) Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock(1) 12% promissory notes(1)		5,080 3,250	4,800 3,250
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest 16% subordinated promissory note(1)		2,850 1,690	6,419 1,690
<b>Total Control investments: Majority-owned (represents 41.4% of total investments at fair value)</b>				<b>\$</b>	<b>27,495</b>	<b>\$ 28,596</b>
<b>Control Investments: Non-majority owned(6):</b>						
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock 7% promissory note Member interest in CCI-ANI Finance, LLC Member interest (66.7%) in JL Madre, LLC(1)	\$	1,370 3,570 2,734 865	\$ 790 3,570 2,989 936
HealthSPAC, LLC El Segundo, CA	Healthcare	December 2006	Member interest (40%) 12% promissory note		40 734	40 269
<b>Total Control Investments: Non-majority Owned (represents 12.5% of total investments at fair value)</b>				<b>\$</b>	<b>9,313</b>	<b>8,594</b>
<b>Total Control Investments: (represents 53.9% of total investments at fair value)</b>				<b>\$</b>	<b>36,808</b>	<b>37,190</b>

Affiliate Investments(5):

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Infinia Corporation Kennewick, WA	Alternative energy	June 2007	666,667 Class A shares preferred stock  160,720 Class B shares preferred stock Option to purchase 16,000 shares of common stock at \$6.35 per share through December 19, 2012	\$ 3,000	\$ 14,973
Nickent Golf, Inc. City of Industry, CA	Entertainment and leisure	June 2007	13% 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	\$ 6,430	6,430 180
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
<b>Total Affiliate Investments (represents 30.4% of total investments at fair value)</b>				<b>\$ 18,353</b>	<b>\$ 20,974</b>

**Table of Contents****EQUUS TOTAL RETURN, INC.****SCHEDULE OF PORTFOLIO SECURITIES****DECEMBER 31, 2008 (Continued)**

<b>Name and Location of Portfolio Company</b>	<b>Industry</b>	<b>Date of Initial Investment(4)</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost of Investment</b>	<b>Fair Value(3)</b>
<b>Non-Affiliate Investments (less than 5% owned):</b>						
<i>(amounts in thousands)</i>						
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(2)		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. Houston, TX	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
<b>Total Non-Affiliate Investments (represents 15.7% of total investments at fair value)</b>					<b>\$16,930</b>	<b>\$10,872</b>
<b>Total Investments</b>					<b>\$72,091</b>	<b>\$69,036</b>

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- (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) Investments subsequent to June 30, 2005 were selected by the Adviser.
- (5) 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.
- (6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.
- (7) 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.
- (8) 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.

**Table of Contents****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 \$3.1 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 \$11.3 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%
Real estate		0.0%
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**

**March 31, 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 ). With shareholder approval on June 30, 2005, the Fund has entered into a new investment advisory agreement with Moore Clayton Capital Advisors, Inc. (the Adviser ). Prior to this agreement, the Fund's adviser was Equus Capital Management Corporation.

The Fund elected to retain the Adviser in part to provide the Fund with enhanced investment opportunities in both the United States and internationally. 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 months ended March 31, 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 December 31, 2008, as filed with the SEC. Certain prior period information has been reclassified to conform to current year presentation.



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### (2) Liquidity and Financing Arrangements

**Liquidity** There are several factors that may materially affect the Fund's liquidity during the reasonably foreseeable future. The Fund views this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e.*, the period through March 31, 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 necessary to meet the Fund's investment commitments of \$4.2 million, the Fund has 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.

**Cash and Temporary Investments** As of March 31, 2009, the Fund had cash and temporary cash investments of \$7.3 million. The Fund had \$71.2 million of its net assets of \$79.4 million invested in portfolio securities. Restricted assets totaled \$42.4 million, of which \$42.0 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 April 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 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.

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.

**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 of the Fund's portfolio assets and securities. It contains certain restrictive covenants, including, but not limited to, the maintenance of certain financial ratios and certain limitations on indebtedness, liens, sales of assets, mergers and transactions with affiliates all of which the Fund is in compliance as of March 31, 2009. To date, the Fund has not borrowed any amounts under the Credit Facility.

**Commitments** As of March 31, 2009, the Fund had total commitments of \$4.2 million with \$1.0 million and \$3.2 million committed to RP&C and HealthSPAC, respectively, which are both in the healthcare 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.

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**RIC Borrowings, Restricted Cash and Temporary Investments** As of March 31, 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 March 31, 2009, the Fund borrowed \$42.0 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 \$42.4 million. The U.S. Treasury bills were sold and the total amount borrowed was repaid on April 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.

**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 2008 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 2009 operating requirements

(3) **Significant Accounting Policies**

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

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

**Valuation of Investments** Portfolio investments are carried at fair value with the net change in unrealized appreciation or depreciation included in the determination of net assets. Valuations of portfolio securities are performed in accordance with accounting principles generally accepted in the United States of America and the financial reporting policies of the 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.

*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 the Adviser'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 the Adviser, 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.

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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 the Adviser 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 valuation 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 \$70.3 million and \$68.3 million as of March 31, 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 March 31, 2009 and December 31, 2008, one of the Fund's portfolio securities, Metic Group plc, was publicly listed on the AIM. 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.

**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.

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**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 partnerships and limited liability partnerships. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax.

(4) **Fair Value Measurement**

The Fund follows Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether an instrument is carried at fair value. The Fund adopted SFAS 157 for the quarter ending March 31, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund has categorized all investments recorded at fair value in accordance with SFAS 157 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

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

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

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

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



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Investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

<i>(in thousands)</i>	Fair Value Measurements As of March 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Control investments	37,092			37,092
Affiliate investments	22,773			22,773
Non-Affiliate investments	11,344		877	10,467
Total assets reported at fair value	\$ 71,209	\$	\$ 877	\$ 70,332

The following table provides a reconciliation of fair value changes for all investments for which we determine fair value using unobservable (Level 3) factors:

<i>(in thousands)</i>	Fair value measurements using unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2008	\$ 37,190	\$ 20,974	\$ 10,135	\$ 68,299
Change in unrealized appreciation	(505)	1,479		974
Purchases, issuances and settlements, net	407	320	332	1,059
Transfers in (out) of Level 3				
Fair value as of March 31, 2009	\$ 37,092	\$ 22,773	\$ 10,467	\$ 70,332

**Reclassification** Certain amounts for the three months ended March 31, 2009 and 2008 have been reclassified in the comparative financial statements to be comparable to the presentation in the three months ended March 31, 2009. These reclassifications had no effect on net assets, net income or cash flows from operating activities.

**(5) Related Party Transactions and Agreements**

The Fund entered into an investment advisory agreement dated June 30, 2005 (the *Advisory Agreement*) with Moore Clayton Capital Advisors, Inc. (the *Adviser*). This agreement was renewed in June 2008. Pursuant to the *Advisory Agreement*, the *Adviser* performs certain investment advisory services that are necessary for the operation of the Fund. The *Adviser* receives a base advisory fee at an annual rate of 2% of the net assets of the Fund, paid quarterly in arrears, as well as incentive fees in the following amounts: (i) 20% of the excess, if any, of the Fund's net investment income for a quarter that exceeds a quarterly hurdle rate equal to 2% (8% annualized) of the Fund's net assets, and (ii) 20% of the Fund's net realized capital gain less unrealized capital depreciation paid on an annual basis. The advisory fees that the Fund pays represent the *Adviser's* primary source of revenue. The *Adviser* is a group company of Moore, Clayton & Co., Inc., an international private equity investment and advisory firm. The *Adviser* is controlled by Anthony Moore and Kenneth Denos, both directors of the Fund, who hold non-dividend super voting preferred shares in the *Adviser*.

The *Advisory Agreement* presently continues year-to-year, provided such continuance is approved at least annually by (i) a vote of a majority of the outstanding shares of the Fund, or (ii) a majority of the Independent Directors of the Fund. The *Advisory Agreement* may be terminated at any time, without the payment of any penalty, by the Board of Directors or the holders of a majority of the Fund's shares on 60 days' written notice to the *Adviser*, and would automatically terminate in the event of its assignment (as defined in the 1940 Act).

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The Fund also entered into an administration agreement dated June 30, 2005 ( Administration Agreement ) with Equus Capital Administration Company, Inc. (the Administrator ). This agreement was renewed in June 2008. The Fund agreed to reimburse the Administrator certain one time costs and expenses ( Special Administrative Fee ) associated with the change

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in administrators. The Special Administrative Fee, in the amount of \$0.5 million, was accrued to expense at June 30, 2005, and paid to the Administrator in the third quarter of 2005. Pursuant to the Administration Agreement, the Administrator provides (or arranges for suitable third parties to provide) all administrative services necessary for the operation of the Fund. The Fund reimburses the Administrator for the costs and expenses incurred by the Administrator in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements do not exceed \$0.5 million per year, excluding the one-time Special Administrative Fee.

The Administration Agreement presently continues year-to-year, provided such continuance is approved at least annually by the Fund's Board of Directors, including a majority of the Independent Directors. The Administration Agreement may be terminated at any time, without the payment of any penalty, by the Board of Directors, or by the Administrator, upon 60 days' written notice to the other party, and would automatically terminate in the event of its assignment (as defined in the 1940 Act).

As compensation for services to the Fund, each Independent Director receives an annual fee of \$20,000 paid quarterly in arrears, a fee of \$2,000 for each meeting of the Board of Directors attended in person, a fee of \$1,000 for participation in each telephonic meeting of the Board and a fee of \$1,000 for each committee meeting attended, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. A quarterly fee of \$2,500 is paid to the Chairman of the Independent Directors and the Chairman of the Audit Committee. An annual fee of \$15,000 is paid to the Chairman of the Board of Directors.

**(6) Contractual Obligations**

The Fund has entered into four contracts under which it expects to have material future commitments, including the Advisory Agreement between the Fund and the Adviser, pursuant to which the Adviser has agreed to serve as the Fund's investment advisor; the Administration Agreement between the Fund and the Administrator, pursuant to which the Administrator has agreed to furnish the Fund with the facilities and administrative services necessary to conduct the Fund's day-to-day operations and to provide managerial assistance on its behalf to portfolio companies to which the Fund is required to provide such assistance. The Advisory Agreement and the Administration Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other, see Note 5.

The remaining two commitments as of March 31, 2009 relate to the Fund's portfolio company investments and are summarized as follows (in thousands):

<b>Portfolio Company</b>	<b>Original Commitment</b>	<b>Remaining Commitment</b>
HealthSPAC, LLC(1)	\$ 5,000	\$ 3,227
RP&C International Investments LLC	11,100	1,000
		\$ 4,227

(1) Funding of the remaining commitment has been postponed until 2010 at the earliest.

**(7) Federal Income Tax Matters**

The Fund is required to make distributions of any net taxable investment income on an annual basis, and may elect to distribute or retain net taxable realized capital gains. The Internal Revenue Service approved the Fund's request, effective October 31, 1998, to change its year end for determining capital gains for purposes of Section 4982 of the Internal Revenue Code from December 31 to October 31.

The Fund was not required to make a distribution of ordinary income for 2008 under income tax regulations. For the year ended December 31, 2008, the Fund had a net investment loss for book purposes of \$1.0 million and \$1.0 million for tax purposes. During 2008, the Fund had a net capital gain for book purposes of \$0.9 million and a net capital gain for tax purposes of \$1.0 million. As of December 31, 2008, the Fund has no capital loss carry-forward. The aggregate cost of investments for federal income tax purposes as of December 31, 2008 was \$69.2 million. Such investments had unrealized appreciation of \$15.6 and unrealized depreciation of \$18.7 for book purposes, or net unrealized depreciation of \$3.1 million.

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The Fund follows Financial Accounting Standards Board (FASB) Interpretation No. 48 entitled Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, referred to as FIN 48, as of January 1, 2007. FIN 48 clarifies the accounting for uncertain tax positions that may have been taken by an entity. Specifically, FIN 48 prescribes a more-likely-than-not recognition threshold to measure a tax position taken or expected to be taken in a tax return through a two-step process: (1) determining whether it is more likely than not that a tax position will be sustained upon examination by taxing authorities,

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after all appeals, based upon the technical merits of the position; and (2) measuring to determine the amount of benefit/expense to recognize in the financial statements, assuming taxing authorities have all relevant information concerning the issue. The tax position is measured at the largest amount of benefit/expense that is greater than 50 percent likely of being realized upon ultimate settlement. This pronouncement also specifies how to present a liability for unrecognized tax benefits in a classified balance sheet, but does not change the classification requirements for deferred taxes. Under FIN 48, if a tax position previously failed the more-likely-than-not recognition threshold, it should be recognized in the first subsequent financial reporting period in which the threshold is met. Similarly, a position that no longer meets this recognition threshold should no longer be recognized in the first financial reporting period that the threshold is no longer met.

The Fund is a flow-through, non-tax paying entity; further, the Fund's net operating loss carry-forwards have been exhausted. Based upon an examination of the Fund's tax position, the Fund determined that the aggregate exposure under FIN 48 did not have a material impact on its financial statements at December 31, 2008 or March 31, 2009. Therefore, the Fund has not recorded an adjustment to its financial statements related to the adoption of FIN 48. The Fund will continue to evaluate its tax positions in accordance with FIN 48, and recognize any future impact under FIN 48 as a charge to income in the applicable period in accordance with the standard.

The Fund's accounting policy related to income tax penalties and interest assessments is to accrue for these costs and record a charge to expenses during the period that the Fund takes an uncertain tax position through resolution with the taxing authorities or expiration of the applicable statute of limitations.

**(8) Portfolio Securities**

During the three months ended March 31, 2009, the Fund made follow-on investments of \$1.1 million in several follow-on investments, including \$0.4 million in the form of interest and dividends paid-in-kind or original issue discount/premium amortization.

The following table includes significant new and follow-on investments during the quarter ended March 31, 2009 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Riptide Entertainment, LLC	\$	\$	\$ 350	\$	\$ 350
Nickent Golf, Inc.			320		320
1848 Capital Partners LLC				244	244
ConGlobal Industries Holdings, Inc.				57	57
London Bridge Entertainment Partners Ltd				50	50
Big Apple Entertainment Partners LLC				38	38
			<b>\$ 670</b>	<b>\$ 389</b>	<b>\$ 389</b>

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

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

During the three months ended March 31, 2008, the Fund invested \$3.0 million in a new portfolio company and made follow-on investments of \$7.8 million, including \$0.2 million in the form of interest and dividends paid-in-kind or original issue discount/premium amortization.

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The following table includes significant new and follow-on investments during the quarter ended March 31, 2008 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Infinia Corporation	\$	\$	\$ 5,000	\$	\$ 5,000
1848 Capital Partners LLC	3,000				3,000
Riptide Entertainment, LLC			1,600		1,600
Nickent Golf, Inc.			1,000	60	1,060
Various others				161	161
	\$ 3,000	\$	\$ 7,600	\$ 221	\$ 10,821

During the three months ended March 31, 2008, the Fund realized net capital gains of \$0.4 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain/(Loss)
RP&C International Investments LLC	Healthcare	Affiliate	\$ 351
JL Madre Equipment, LLC	Shipping products and services	Control	72
Alenco Window Holdings	Residential building products	Control	2
			\$ 425

Net unrealized appreciation on investments increased by \$0.3 million during the three months ended March 31, 2008, from a net unrealized appreciation of \$16.8 million to a net unrealized appreciation of \$17.1 million. Such increase in appreciation resulted primarily from increase in estimated fair market value of ConGlobal Industries Holding, Inc., resulting from an increase in operations for the period. The increase was partially offset by the decrease in fair market value of Spectrum Management, LLC, resulting from declining sales.

**(9) Recent Accounting Pronouncements**

**Fair Value Measurements** On February 12, 2008, FASB Staff Position No. FAS 157-2 Effective Date of FASB No. 157, or FSP 157-2, was issued. FSP 157-2 deferred the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, with early adoption permitted in certain cases. Our adoption of this standard effective January 1, 2009 did not affect our financial position or results of operations.

On October 10, 2008, FASB Staff Position No. FAS 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, or FSP 157-3, was issued. FSP 157-3 provides an illustrative example of how to determine the fair value of a financial asset in an inactive market. This FSP does not change the fair value measurement principles set forth in SFAS 157. Since adopting SFAS 157 in January 2008, our practices for determining the fair value of our investment portfolio have been, and continue to be, consistent with the guidance provided in the example in FSP 157-3. Therefore, our adoption of FSP 157-3 did not affect our practices for determining the fair value of our investment portfolio and did not have a material effect on our financial position or results of operations.

On April 9, 2009, FASB Staff Position No. FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP 157-4, was issued. This FSP provides guidance for determining whether normal market activity exists for Level 2 assets and liabilities. In addition, FSP 157-4 expands disclosure requirements for fair value reporting and requires a categorization of investments consistent with that required for SFAS 115 Accounting for Certain Investments in Debt and Equity Securities. FSP 157-4 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We will adopt this standard for our period ended June 30, 2009. Since our Level 2 investments comprise less than 1.5% of our investment portfolio, we do not believe that the adoption of FSP 157-4 will have a material effect on our financial position or results of operations.

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On April 9, 2009, FASB Staff Position No. FAS 107-1 and APB 28-1 Interim Disclosures about Fair Value of Financial Instruments, or FSP 107-1, was issued. This FSP requires disclosures about financial instruments, including fair value, carrying amount, and method and significant assumptions used to estimate the fair value. FSP 107-1 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We will adopt this standard for the period ended June 30, 2009. Currently, we are reviewing the disclosure requirements of this FSP.

### (10) Subsequent Events

On April 1, 2009, the Fund sold U.S. Treasury bills for \$42.0 million and repaid the margin loan.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.** **Overview**

Equus Total Return, Inc. is a business development company which invests in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. The Fund did not make any new investments other than follow-on investments during the three months ended March 31, 2009 and made one new investment other than follow-on investments during the three months ended March 31, 2008.

The valuation of the Fund's investments is the most significant area of judgment impacting the financial statements. The Fund's portfolio investments are valued at estimates of fair value, with the net change in unrealized appreciation or depreciation included in the determination of net assets. Almost all of the long-term investments are in privately-held or restricted securities, the valuation of which is necessarily subjective. Actual values may differ materially from the Fund's estimated fair value. Portfolio valuations are determined quarterly by the Adviser, subject to the approval of the Board of Directors, and are based on a number of relevant factors.

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

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

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

### **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.

*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 the Adviser'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



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valuation. Appraised values are determined quarterly by the Adviser, 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 the Adviser 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. 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 valuation 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 \$70.3 million and \$68.3 million as of March 31, 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 March 31, 2009 and December 31, 2008, one of the Fund's portfolio securities, Metic Group plc, was publicly listed on the AIM. 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.

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

## **Current Market Conditions**

The state of the economy in the U.S. and abroad continued to deteriorate to what many believe is a recession, which could be long-term. Banks and others in the financial services industry have continued to report significant write-downs in

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fair value of their assets. The failure of a number of banks and investment companies, distressed mergers and acquisitions, and the government take-over of the nation's two largest government-sponsored mortgage companies led to the passage of the \$700 billion *Emergency Economic Stabilization Act* in early October 2008. In addition, the stock market has declined significantly, with both the S&P 500 and the NYSE (on which EQS trades) declining approximately 40% between March 31, 2008 and March 31, 2009. As the recession deepened, unemployment rose and consumer confidence declined, which led to significant reductions in spending by both consumers and businesses. These events have significantly constrained the availability of debt and equity capital for the market as a whole, and the financial services sector in particular.

These and other events have also led to rising unemployment, deteriorating consumer confidence and a general reduction in spending by both consumers and business, adversely affecting a number of industries including those in which the Fund's portfolio companies operate. Further, consistent with other companies in the financial services sector, the Fund has been adversely affected by many of these events. Between March 31, 2009 and March 31, 2008, the closing price of the Fund's common stock has declined approximately 58% and is trading at a 68% discount.

## **Liquidity and Capital Resources**

Because of the nature and size of the portfolio investments, the Fund may periodically borrow funds to make qualifying investments to maintain its tax status as a RIC. During the three months ended March 31, 2009 and 2008, the Fund borrowed such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on its net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends.

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

The Fund reserves the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Fund as long-term capital gains and stockholders will be able to claim their proportionate share of the federal income taxes paid on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their Fund shares by the difference between their undistributed capital gains and their tax credit.

## **Results of Operations**

### **Investment Income and Expense**

Net investment loss after all expenses was \$0.1 million for the three months ended March 31, 2009 and net investment income was \$0.4 million for the three months ended March 31, 2008. The net investment loss generated at March 31, 2009 compared to 2008, is due primarily to the decrease in total investment income and an increase in total expenses for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. Total income from portfolio securities was \$0.9 million and \$1.1 million for the three months ended March 31, 2009 and 2008, respectively.

Interest from temporary cash investments decreased from \$0.3 million for the three months ended March 31, 2008 to \$0.02 million for the three months ended March 31, 2009. The cash in temporary investments (excluding the margin account) decreased \$15.5 million from \$22.8 million as of March 31, 2008 to \$7.3 million as of March 31, 2009, primarily due to the increase in new and follow-on investments.

The Adviser receives management fee compensation at an annual rate of 2% of the net assets of the Fund paid quarterly in arrears. Such fees amounted to \$0.4 million for the three months ended March 31, 2009, or a \$0.1 million decrease from the three months ended March 31, 2008.

Professional fees increased from \$0.2 million to \$0.3 million for the three months ended March 31, 2009, as compared to the three months ended March 31, 2008.

Administrative fees were unchanged for the three months ended March 31, 2009 and 2008, respectively. The Fund reimburses the Administrator, ECAC, for the costs and expenses incurred in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements do not exceed \$450,000 per year. The Administrator receives \$112,500 per quarter.



**Table of Contents****Realized Gains and Losses on Sales of Portfolio Securities**

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

During the three months ended March 31, 2008, the Fund realized net capital gains of \$0.4 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain/(Loss)
RP&C International Investments LLC	Healthcare	Affiliate	\$ 351
JL Madre Equipment, LLC	Shipping products and services	Control	72
Alenco Window Holdings	Residential building products	Control	2
			\$ 425

**Changes in Unrealized Appreciation/Depreciation of Portfolio Securities**

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

Net unrealized appreciation on investments increased by \$0.3 million during the three months ended March 31, 2008, from a net unrealized appreciation of \$16.8 million to a net unrealized appreciation of \$17.1 million. Such increase in appreciation resulted primarily from increase in estimated fair market value of ConGlobal Industries Holding, Inc., resulting from an increase in operations for the period. The increase was partially offset by the decrease in fair market value of Spectrum Management, LLC, resulting from declining sales.

**Dividends**

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.

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.

**Table of Contents****Portfolio Investments**

The following table includes significant new and follow-on investments during the quarter ended March 31, 2009 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Riptide Entertainment, LLC	\$	\$	\$ 350	\$	\$ 350
Nickent Golf, Inc.			320		320
1848 Capital Partners LLC				244	244
ConGlobal Industries Holdings, Inc.				57	57
London Bridge Entertainment Partners Ltd				50	50
Big Apple Entertainment Partners LLC				38	38
			<b>\$ 670</b>	<b>\$ 389</b>	<b>\$ 389</b>

The following table includes significant new and follow-on investments during the quarter ended March 31, 2008 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Infinia Corporation	\$	\$	\$ 5,000	\$	\$ 5,000
1848 Capital Partners LLC	3,000				3,000
Riptide Entertainment, LLC			1,600		1,600
Nickent Golf, Inc.			1,000	60	1,060
Various others				161	161
	\$ 3,000	\$	\$ 7,600	\$ 221	\$ 10,821

**Subsequent Events**

On April 1, 2009, the Fund sold U.S. Treasury bills for \$42.0 million and repaid the margin loan.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

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

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

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

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The Fund is classified as a non-diversified investment company under the Investment Company Act, which means the Fund is not limited in the proportion of its assets that may be invested in the securities of a single user. The value of one segment called Alternative Energy includes two portfolio companies and was 29.7% of the net asset value and 33.1% of the Fund's investments in portfolio company securities (at fair value) at March 31, 2009. Changes in business or industry trends or in the financial condition, results of operations, or the market's assessment of any single portfolio company will affect the net asset value and the market price of the Fund's common stock to a greater extent than would be the case if the Fund were a diversified company holding numerous investments.

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### **Item 4. Controls and Procedures**

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

The Fund's management, with the participation of the Fund's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operations of the Fund's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2009. Based on their evaluation, the Fund's Chief Executive Officer and Chief Financial Officer concluded that the Fund's disclosure controls and procedures were effective at a reasonable assurance level. There has been no change in the Fund's internal control over financial reporting during the quarter ended March 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

## **Part II. Other Information**

### **Item 6. Exhibits**

#### 3. Articles of Incorporation and by-laws

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

#### 10. Material Contracts.

- (a) Investment Advisory Agreement dated June 30, 2005, between the Fund and Moore, Clayton Capital Advisors, Inc. [Incorporated by reference to Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.]
- (b) Administration Agreement dated June 30, 2005, between the Fund and Equus Capital Administration Company. [Incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.]
- (c) Safekeeping Agreement between the Fund and Amegy Bank dated August 16, 2008. [Incorporated by reference to Exhibit 10(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.]
- (d) Form of Indemnification Agreement between the Fund and its directors and certain officers. [Incorporated by reference to Exhibit 10(g) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.]

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- (e) Form of Release Agreement between the Fund and certain of its officers and former officers. [Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.]
  - (f) Joint Code of Ethics of the Fund and Moore Clayton Capital Advisors, Inc. (Rule 17j-1) [Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.]
  - (g) Revolving Credit Note between the Fund and Amegy Bank National Association dated August 13, 2008. [Incorporated by reference to Exhibit 10 (g) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.]
  - (h) Pledge and Security Agreement between the Fund and Amegy Bank National Association dated August 13, 2008. [Incorporated by reference to Exhibit 10 (h) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.]
31. Rule 13a-14(a)/15d-14(a) Certifications
- 1. Certification by Chairman and Chief Executive Officer
  - 2. Certification by Chief Financial Officer

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32. Section 1350 Certifications

1. Certification by Chairman and Chief Executive Officer
2. Certification by Chief Financial Officer

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed by the undersigned, thereunto duly authorized.

EQUUS TOTAL RETURN, INC.

Date: May 14, 2009

/s/ Kenneth I. Denos  
**Kenneth I. Denos**

**Chief Executive Officer**