EQUUS TOTAL RETURN, INC.
Form 10-Q
August 12, 2015

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 June 30, 2015

or

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

Commission File Number 814-00098

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0345915**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

700 Louisiana St., 48th Floor

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company. Yes No

There were 12,673,646 shares of the registrant's common stock, $.001 par value, outstanding, as of August 12, 2015.

Table of Contents

EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

INDEX

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Supplemental Information—Selected Per Share Data and Ratios	7
Schedules of Investments	8
Notes to Financial Statements	12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3. Quantitative and Qualitative Disclosure about Market Risk	30
Item 4. Controls and Procedures	30
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	30
Item 1A. Risk Factors	31
Item 6. Exhibits	32
SIGNATURE	33

Table of Contents 2

EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

(Unaudited)

Part I. Financial Information

Item 1. Financial Statements

	June 30, 2015	December 31, 2014
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at $10,050 and $16,058 respectively)	$8,715	$13,173
Affiliate investments (cost at $350 and $350 respectively)	5,627	960
Non-affiliate investments - related party (cost at $5,815 and $5,706 respectively)	4,243	3,981
Non-affiliate investments (cost at $915 and $1,097 respectively)	915	1,532
Total investments in portfolio securities at fair value	19,500	19,646
Cash and cash equivalents	17,977	15,697
Restricted cash and temporary cash investments	—	15,149
Accounts receivable from investments	614	614
Accrued interest receivable	62	764
Accrued dividend receivable	—	54
Accounts receivable and other	169	114
Total assets	38,322	52,038
Liabilities and net assets		
Accounts payable and accrued liabilities	87	664
Accounts payable to related parties	250	174
Borrowing under margin account	—	14,999
Total liabilities	337	15,837
Commitments and contingencies (see Note 2)		
Net assets	$37,985	$36,201
Net assets consist of:		
Common stock, par value	$13	$13
Capital in excess of par value	54,227	56,049
Undistributed net investment losses	(18,625)	(16,956)
Undistributed net capital gains	—	660
Unrealized appreciation (depreciation) of portfolio securities, net	3,942	(1,840)

Unrealized depreciation of portfolio securities - related party, net	(1,572)	(1,725)
Total net assets	$37,985	$36,201
Shares of common stock issued and outstanding, $.001 par value, 50,000 shares authorized	12,674	12,674
Shares of preferred stock issued and outstanding, $.001 par value, 5,000 shares authorized	—	—
Net asset value per share	$3.00	$2.86

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

Table of Contents 3

EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Investment income:				
Interest and dividend income:				
Control investments	$—	$—	$—	$198
Non-affiliate investments - related party	55	—	55	—
Non-affiliate investments	32	64	76	122
Total interest and dividend income	87	64	131	320
Interest from temporary cash investments	2	—	2	—
Total investment income	89	64	133	320
Expenses:				
Professional fees	109	237	436	528
Compensation expense	239	225	863	437
Director fees and expenses	116	161	211	257
General and administrative expense	135	69	176	169
Mailing, printing and other expenses	66	77	89	98
Taxes	18	8	25	14
Interest expense	—	—	1	—
Total expenses	683	777	1,801	1,503
Net investment loss	(594)	(713)	(1,668)	(1,183)
Net realized gain (loss):				
Control investments	—	—	(2,850)	—
Non-affiliate investments	—	660	372	660
Temporary cash investments	—	—	(5)	—
Net realized gain (loss)	—	660	(2,483)	660
Net unrealized appreciation (depreciation) of portfolio securities:				
End of period	3,942	(2,502)	3,942	(2,502)
Beginning of period	1,023	(4,024)	(1,840)	(3,956)
Net change in unrealized appreciation (depreciation) of portfolio securities	2,919	1,522	5,782	1,454
Net unrealized depreciation of portfolio securities - related party:				
End of period	(1,572)	(458)	(1,572)	(458)
Beginning of period	(1,870)	—	(1,725)	—
Net change in unrealized depreciation of portfolio securities - related party	298	(458)	153	(458)
Net increase in net assets resulting from operations	$2,623	$1,011	$1,784	$473

Net increase in net assets resulting from operations per share:				
Basic and diluted	$0.21	$0.09	$0.14	$0.04
Weighted average shares outstanding:				
Basic and diluted	12,674	11,676	12,674	11,122

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

Table of Contents 4

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Six months ended June 30,	
(in thousands)	2015	2014
Net increase in net assets resulting from operations	$1,784	$473
Shares issued for portfolio securities - related party	—	4,351
Increase in net assets	1,784	4,824
Net assets at beginning of period	36,201	33,217
Net assets at end of period	$37,985	$38,041

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

Table of Contents 5

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Six months ended June 30, 2015	2014
Reconciliation of increase in net assets resulting from operations to net cash provided by operating activities:		
Net increase in net assets resulting from operations	$1,784	$473
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Net realized loss (gain)	2,483	(660)
Net change in unrealized appreciation (depreciation) of portfolio securities	(5,782)	(458)
Net change in unrealized depreciation of portfolio securities - related party	(153)	(538)
Changes in operating assets and liabilities:		
Purchase of portfolio securities	—	(647)
Net proceeds from dispositions of portfolio securities	372	62
Principal payments received from portfolio securities	4,255	—
Sales of temporary cash investments, net	15,144	15,149
Increase in accounts receivable from investments	—	(202)
(Increase) decrease in accrued interest receivable	(268)	4
Increase in accounts receivable and other	(55)	(280)
(Decrease) increase in accounts payable and accrued liabilities	(577)	194
Increase in accounts payable to related parties	76	36
Net cash provided by operating activities	17,279	13,133
Cash flows from financing activities:		
Repayments under margin account	(14,999)	(15,000)
Net cash used in financing activities	(14,999)	(15,000)
Net increase (decrease) in cash and cash equivalents	2,280	(1,867)
Cash and cash equivalents at beginning of period	15,697	19,065
Cash and cash equivalents at end of period	$17,977	$17,198
Non-cash operating and financing activities:		
Shares issued in lieu of cash for portfolio securities	$—	$4,351
Accrued interest or dividends exchanged for portfolio securities	$915	$117
Accrued interest or dividends exchanged for portfolio securities - related party	$110	$—
Supplemental disclosure of cash flow information:		
Interest paid	$1	$—
Income taxes paid	$22	$11

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

Table of Contents 6

EQUUS TOTAL RETURN, INC.

SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS

(Unaudited)

	Six months ended June 30,	
	2015	2014
Investment income	$0.01	$0.03
Expenses	0.14	(0.14)
Net investment loss	(0.13)	(0.11)
Net realized (loss) gain	(0.20)	0.06
Net change in unrealized depreciation	0.46	0.13
Net change in unrealized depreciation - related party	0.01	(0.04)
Net increase in net assets from operations	0.14	0.04
Capital transactions:		
Shares issued for portfolio securities	—	0.39
Dilutive effect of shares issued	—	(0.57)
Decrease in net assets resulting from capital transactions	—	(0.18)
Net increase (decrease) in net assets	0.14	(0.14)
Net assets at beginning of period	2.86	3.14
Net assets at end of period, basic and diluted	$3.00	$3.00
Weighted average number of shares outstanding during period, in thousands	12,674	11,122
Market price per share:		
Beginning of period	$2.10	$1.92
End of period	$1.90	$2.48
Selected information and ratios:		
Ratio of expenses to average net assets	4.86%	4.56%
Ratio of net investment loss to average net assets	(4.50%)	(3.58%)
Ratio of net increase in net assets resulting from operations to average net assets	4.81%	1.30%
Total return on market price [1]	(9.52%)	29.17%

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

The accompanying notes are an integral part of these financial statement

Table of Contents 7

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

JUNE 30, 2015

(Unaudited)

(in thousands, except share data)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value[1]
Control Investments: Majority-owned [3]:						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)		$ 7,050	$ 8,500
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	215
Total Control Investments: Majority-owned (represents 44.7% of total investments at fair value)					**$** 10,050	**$** 8,715
Affiliate Investments [4]**:**						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.8%)		$ 350	$ 5,627
Total Affiliate Investments (represents 28.8% of total investments at fair value)					**$ 350**	**$** 5,627
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	September 2014	415,946 shares of common stock (1.7%) [5]		$ 5,815	$ 4,243
Total Non-Affiliate Investments - Related Party (represents 21.8% of total investments at fair value)					**$ 5,815**	**$** 4,243
Non-Affiliate Investments (less than 5% owned):						
5TH Element Tracking LLC Boston, MA	Business products and services	January 2015	14% promissory note due 1/16 [2]	$ 915	915	915
Total Non-Affiliate Investments (represents 4.7% of total investments at fair value)					**$** 915	**$** 915
Total Investment in Portfolio Securities					**$** 17,130	**$** 19,500

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

(2) Income-producing.

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

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

(5) Pursuant to a Share Exchange Agreement between the Fund and MVC dated May 14, 2014, MVC has the right to rescind the Agreement and cancel the Share Exchange if Equus does not complete a "reorganization" (as defined under Section 2(a)(33) of the 1940 Act) within a 90-day period following the 1-year anniversary date of the Agreement.

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

Table of Contents 8

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

JUNE 30, 2015

(Unaudited)

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

We may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the Investment Company Act of 1940 (hereafter, the "1940 Act"). Specifically, we may invest up to 30% of our assets in entities that are not considered "eligible portfolio companies" (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding $250 million. As of June 30, 2015, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 44.7% of the total value of the investments in portfolio securities as of June 30, 2015.

Our investments in portfolio securities consist of the following types of securities as of June 30, 2015 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of **Net Assets**	
Limited liability company investments	$10,050	$8,715	22.9	%
Common stock	6,165	9,870	26.0	%
Secured and subordinated debt	915	915	2.4	%
Total	$17,130	$19,500	51.3	%

The following is a summary by industry of the Fund’s investments in portfolio securities as of June 30, 2015 (in thousands):

Industry	Fair Value	Fair Value as Percentage of **Net Assets**	
Energy	$8,500	22.4	%
Financial services	4,243	11.2	%
Shipping products and services	5,627	14.8	%
Business products and services	915	2.4	%
Media	215	0.5	%
Total	$19,500	51.3	%

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

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2014

(Unaudited)

(in thousands, except share data)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value[1]
Control Investments: Majority-owned [4]:						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)		$ 7,050	$ 9,800
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	215
Spectrum Management, LLC Carrolton, TX	Business products and services	December 1999	285,000 units of Class A member interest (92.1%/82.5% fully diluted)		2,850	-
			16% subordinated promissory note due 11/11 [3]	$ 3,158	3,158	3,15
					6,008	3,158
Total Control Investments: Majority-owned (represents 38.0% of total investments at fair value)					**$ 16,058**	**$ 13,173**
Affiliate Investments [5]:						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.8%)		$ 350	$ 960
Total Affiliate Investments (represents 2.8% of total investments at fair value)					**$ 350**	**$ 96**
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	September 2014	404,968 shares of common stock (1.7%) [6]		$ 5,706	$ 3,98
Total Non-Affiliate Investments - Related Party (represents 11.5% of total investments at fair value)					**$5,706**	**$3,981**
Non-Affiliate Investments (less than 5% owned):						
Orco Property Group S. A.	Real estate	April 2011		$ 597	597	1,03

Paris, France			10% promissory note due 2/18 (2)(7)			
Security Monitor Holdings, LLC Boston, MA	Business products and services	November 2013	14% promissory note due 6/14 (2)	500	500	50
Total Non-Affiliate Investments (represents 4.4% of total investments at fair value)					$ **1,097**	$ **1,53**
Total Investment in Portfolio Securities					$ **23,211**	$ **19,646**
Temporary Cash Investments						
U.S. Treasury Bill	Government	December 2014	UST 0% 6/15	14,999	$14,999	$14,996
Total Temporary Cash Investments (represents 43.3% of total investments at fair value)					$**14,999**	$**14,996**
Total Investments					$ **38,210**	$ **34,642**

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

(2) Income-producing.

(3) Non-income producing.

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

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

(6) Pursuant to a Share Exchange Agreement between the Fund and MVC dated May 14, 2014, MVC has the right to rescind the Agreement and cancel the Share Exchange if Equus does not complete a “reorganization” (as defined under Section 2(a)(33) of the 1940 Act) within a 90-day period following the 1-year anniversary date of the Agreement.

(7) In October 2014, the terms of these notes were amended to provide, among other changes, an extension of the maturity date to October 2019, and a reduction in the interest rate applicable to the notes from a combination of 5% cash and 5% payment-in-kind securities, to 7% in cash.

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

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

DECEMBER 31, 2014

(Unaudited)

Except for our holding of shares of MVC and our notes of Orco Property Group S.A. (“OPG”), substantially all of our portfolio securities are restricted from public sale without prior registration under the Securities Act. We negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

As defined in the 1940 Act, all of our investments are in eligible portfolio companies. We provide significant managerial assistance to portfolio companies that comprise 67.1% of the total value of the investments in portfolio securities as of December 31, 2014.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2014 (in thousands):

Type of Securities	**Cost**	**Fair Value**	**Fair Value as Percentage of Net Assets**
Limited liability company investments	$12,900	$10,015	27.7 %
Secured and subordinated debt	4,255	4,690	13.0 %
Common stock	6,056	4,941	13.6 %
Total	$23,211	$19,646	54.3 %

Interest payments are being received and/or accrued on notes with a fair value of $1.5 million, while accrued interest has been impaired on notes receivable included in secured and subordinated debt with a fair value of $3.2 million.

The following is a summary by industry of our investments in portfolio securities as of December 31, 2014 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Energy	$9,800	27.1 %
Financial services	3,981	11.0 %
Business products and services	3,658	10.1 %
Real estate	1,032	2.9 %
Shipping products and services	960	2.7 %
Media	215	0.5 %
Total	$19,646	54.3 %

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

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(Unaudited)

(1) Description of Business and Basis of Presentation

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

We attempt to maximize the return to stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value of between $5.0 million and $75.0 million, although we may engage in transactions with smaller or larger investee companies from time to time. We seek to invest primarily in companies pursuing growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses or special situations. Our income-producing investments consist principally of debt securities including subordinate debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies (or smaller public companies) in transactions negotiated directly with such companies. Given market conditions over the past several years and the performance of our portfolio, our Management and Board of Directors believe it prudent to continue to review alternatives to refine and further clarify the current strategies.

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

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

Basis of Presentation—In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934, we do not consolidate portfolio company investments, including those in which we have a controlling interest. Our interim unaudited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, 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 six months ended June 30, 2015 are not necessarily indicative of results that ultimately may be achieved for the remainder of the year. The interim unaudited financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission ("SEC"). Certain previously reported June 30, 2014 amounts have been reclassified to conform with the current presentation.

(2) Liquidity and Financing Arrangements

Liquidity—There are several factors that may materially affect our liquidity during the reasonably foreseeable future. We view this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e*., the period through June 30, 2016. We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We have followed valuation techniques in a consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine follow-on investments, if any, through the next twelve months.

Cash and Cash Equivalents—As of June 30, 2015, we had cash and cash equivalents of $18.0 million. We had $19.5 million of our net assets of $38.0 million invested in portfolio securities.

As of December 31, 2014, we had cash and cash equivalents of $15.7 million. We had $19.7 million of our net assets of $36.2 million invested in portfolio securities. We also had $15.1 million of restricted cash and temporary cash investments, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC to maintain our pass-through tax treatment. Of this amount, $15.0 million was invested in U.S. Treasury bills and $0.1 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills were sold on January 2, 2015 and we subsequently repaid this margin loan. The margin loan and interest was paid on February 4, 2015.

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

Investment Commitments—As of June 30, 2015, we had no outstanding commitments to our portfolio company investments.

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

RIC Borrowings, Restricted Cash and Temporary Cash Investments—We may periodically borrow sufficient funds to maintain the Fund's RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If we are unable to borrow funds to make qualifying investments, we may no longer qualify as a RIC. We would then be subject to corporate income tax on the Fund's net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be materially adverse to us and our stockholders.

We had no RIC borrowings or restricted cash as of June 30, 2015.

As of December 31, 2014, we borrowed $15.0 million to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary cash investments in U.S. Treasury bills of $15.1 million. The U.S. Treasury bills were sold on January 2, 2015 and the total amount borrowed was repaid at that time. The margin loan and interest was paid on February 4, 2015.

Certain Risks and Uncertainties— Market and economic volatility which has become endemic in the past few years has resulted in a relatively limited amount of available debt financing for small and medium-sized companies such as Equus and its portfolio companies. Such debt financing generally has shorter maturities, higher interest rates and fees, and more restrictive terms than debt facilities available in the past. In addition, during these years and continuing into the first six months of 2015, the price of our common stock remained well below our net asset value, thereby making it undesirable to issue additional shares of our common stock below net asset value. Because of these challenges, our near-term strategies shifted from originating debt and equity investments to preserving liquidity necessary to meet our operational needs. Key initiatives that we have previously undertaken to provide necessary liquidity include monetizations, the suspension of dividends and the internalization of management. Although we cannot assure you that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our operating requirements for the remainder of 2015 and the first six months of 2016.

(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 GAAP requires us to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although we believe the estimates and assumptions used in preparing these financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates.

Valuation of Investments—We follow ASC Topic 820 for measuring fair value. Prior to our election to become a BDC, we also followed the guidance in ASC Topic 820 in disclosing the fair value reported for all financial instruments that were either impaired or available for sale securities, using the definitions provided in Accounting Standards Codification Topic 320, “Investments – Debt and Equity Securities” (“ASC Topic 320”). Fair value is 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under ASC Topic 820 as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3—Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information under the circumstances and may require significant management judgment or estimation.

We consider a two-step process when appraising investments of privately held companies. The first step involves determining the enterprise value of the portfolio company. During this step, we consider three different valuation approaches: a market approach, an income approach, and a cost approach. The particular facts and circumstances of each portfolio company determine which approach, or combination of approaches, will be utilized. The second step

when appraising equity investments of privately held companies involves allocating value to the various debt and equity securities of the company. We allocate value to these securities based on their relative priorities. For equity securities such as warrants, we may also incorporate alternative methodologies including the Black-Scholes Option Pricing Model. Yield analysis is also employed to determine if a debt security has been impaired.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Investments for which prices are not observable are generally private investments in the debt and equity securities of operating companies. The primary valuation method used to estimate the fair value of these Level 3 investments is the discounted cash flow method (although a liquidation analysis, option theoretical, or other methodology may be used when more appropriate). The discounted cash flow approach to determine fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant factors depending on investment type, including comparing the latest arm's length or market transactions involving the subject security to the selected benchmark credit spread, assumed growth rate (in cash flows), and capitalization rates/multiples (for determining terminal values of underlying portfolio companies). The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date. Application of these valuation methodologies involves a significant degree of judgment by management. Fair values of new investments are generally assumed to be equal to their cost to the Company for up to three months after their initial purchase.

To assess the reasonableness of the discounted cash flow approach, the fair value of equity securities, including warrants, in portfolio companies may also consider the market approach—that is, through analyzing and applying to the underlying portfolio companies, market valuation multiples of publicly-traded firms engaged in businesses similar to those of the portfolio companies. The market approach to determining the fair value of a portfolio company's equity security (or securities) will typically involve: (1) applying to the portfolio company's trailing twelve months (or current year projected) EBITDA a low to high range of enterprise value to EBITDA multiples that are derived from an analysis of publicly-traded comparable companies, in order to arrive at a range of enterprise values for the portfolio company; (2) subtracting from the range of calculated enterprise values the outstanding balances of any debt or equity securities that would be senior in right of payment to the equity securities we hold; and (3) multiplying the range of equity values derived therefrom by our ownership share of such equity tranche in order to arrive at a range of fair values for our equity security (or securities). Application of these valuation methodologies involves a significant degree of judgment by Management.

Equity in a portfolio company that invests in loans will typically be valued by arriving at a fair value of such vehicle's loan assets (plus, when appropriate, the carrying value of certain other assets), and deducting the book value or fair value (as appropriate) of such vehicle's liabilities to arrive at a fair value for the equity. When appropriate, in order to recognize value that would be created by growth opportunities of such portfolio company, equity in a portfolio company may also be valued by taking into consideration the magnitude, timing, and effective life of its expected future investments in loans.

Due to the inherent uncertainty of determining the fair value of Level 3 investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions or otherwise are less liquid than publicly traded instruments. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we might realize significantly less than the value at which such investment had previously been recorded. With respect to Level 3 investments, where sufficient market quotations are not readily available or for which no or an insufficient number of indicative prices from pricing services or brokers or dealers have been received, we undertake, on a quarterly basis, a valuation process as described below:

- For each debt investment, a basic credit review process is completed. The risk profile on every credit facility is reviewed and either reaffirmed or revised by our Investment Committee.

- Each portfolio company or investment is valued by an investment professional

- Third party valuation firm(s) are engaged to provide valuation services as requested, by reviewing Management's preliminary valuations and/or analysis of the portfolio investment in question. For investments with a fair value exceeding $2.5 million, our Management's preliminary fair value conclusions on each of the Fund's assets for which sufficient market quotations are not readily available is reviewed and assessed by a third-party valuation firm at least once in every 12-month period, and more often as

determined by the Audit Committee or required by our valuation policy. Such valuation assessment may be in the form of positive assurance, range of values or another valuation method based on the discretion of our Board.

- The Audit Committee reviews the preliminary valuations of our Management and independent valuation firms and, if appropriate, recommends the approval of the valuations by the Board.

- Our Board discusses valuations and determines the fair value of each investment in the portfolio in good faith based on the input of Management, the Audit Committee and, where appropriate, the respective independent valuation firms.

The following sections describe the valuation techniques we use to measure different financial instruments at fair value and include the levels within the fair value hierarchy in which the financial instruments are categorized.

Market approach – The market approach typically employed by Management calculates the enterprise value of a company as a multiple of earnings before interest, taxes, depreciation and amortization (“EBITDA”) generated by the company for the trailing twelve month period. Adjustments to the company’s EBITDA, including those for non-recurring items, may be considered. Multiples are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. We will apply liquidity and other discounts as deemed appropriate to equity valuations where applicable. We 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.

Income approach – The income approach typically utilized by our Management calculates the enterprise value of a company utilizing a discounted cash flow model incorporating projected future cash flows of the company. Projected future cash flows consider the historical performance of the company as well as current and projected market participant performance. Discount rates are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. We will apply liquidity and other discounts as deemed appropriate to equity valuations where applicable.

Asset approach – We consider the asset approach to determine the fair value of significantly deteriorated investments demonstrating circumstances indicative of a liquidation analysis. This situation may arise when a portfolio company: 1) cannot generate adequate cash flow to meet the principal and interest payments on its indebtedness; 2) is not successful in refinancing its debt upon maturity; 3) we believe the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions may result in the company's inability to meet future obligations; or 4) the portfolio company's reorganization or bankruptcy. Consideration is also given as to whether a liquidation event would be orderly or forced.

We base adjustments upon such factors as the 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 and various other factors and assumptions. In the case of unsuccessful or substantially declining operations, we may base a portfolio company's fair value upon the company's estimated liquidation value. Fair valuations are necessarily subjective, and our estimate of fair value may differ materially from amounts actually received upon the disposition of its portfolio securities. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment. However, in addition to the previously described analysis involving allocation of value to the debt instrument, we will often perform a yield analysis to determine if a debt security has been impaired. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board has approved a multi-step valuation process each quarter, as described below:

1. Each portfolio company or investment is reviewed by our investment professionals and, where necessary, with independent valuation firms engaged by the Fund;

2. The independent valuation firms conduct independent valuations and make their own independent assessments;

3. The Audit Committee of our Board reviews and discusses the preliminary valuation of the Fund and that of the independent valuation firms; and

4. The Board discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Management, the respective independent valuation firm and the Audit Committee.

Investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in fair value pricing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $15.3 million and $15.7 million as of June 30, 2015 and December 31, 2014, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. As of June 30, 2015, one of our portfolio investments, 415,946 common shares of MVC, was publicly listed on the NYSE. As of December 31, 2014, one of our portfolio investments, 404,968 common shares of MVC was publicly listed on the NYSE and our holding of €1,200,790 [$1.5 million] in OPG notes was publicly listed on the Luxembourg Stock Exchange.

We adjust our net asset value for the changes in the value of our publicly held securities, if applicable, and material changes in the value of private securities, generally determined on a quarterly basis or as announced in a press release, and report those amounts to Lipper Analytical Services, Inc. Our net asset value appears in various publications, including *Barron's* and *The Wall Street Journal*.

For loan and debt securities held for longer than one year, the Fund will often perform 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.

We will record unrealized depreciation on investments when we determine that the fair value of a security is less than its cost basis, and will record unrealized appreciation when we determine that the fair value is greater than its cost basis.

We assess the levels of the investments at each measurement date, and transfers between levels are recognized on the subsequent measurement date closest in time to the actual date of the event or change in circumstances that caused the transfer. There were no transfers among Level 1, 2 and 3 for the quarter ended June 30, 2015 and the year ended December 31, 2014.

As of June 30, 2015, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

	Fair Value Measurements as of June 30, 2015			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Control investments	$8,715	$—	$ —	$ 8,715
Affiliate investments	5,627	—	—	5,627
Non-affiliate investments - related party	4,243	4,243	—	—
Non-affiliate investments	915	—	—	915
Total investments in portfolio securities	$19,500	$4,243	$ —	$ 15,257

Table of Contents 17

As of December 31, 2014, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

	Fair Value Measurements as of December 31, 2014			
(in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments:				
Control investments	$13,173	$—	$ —	$ 13,173
Affiliate investments	960	—	—	960
Non-affiliate investments - related party	3,981	3,981	—	—
Non-affiliate investments	1,532	—	—	1,532
Total investments	19,646	3,981	—	15,665
Temporary cash investments	14,996	14,996	—	—
Total investments and temporary cash investments	$34,642	$18,977	$ —	$ 15,665

The following table provides a reconciliation of fair value changes during the six months ended June 30, 2015 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using significant unobservable inputs (Level 3)			
(in thousands)	**Control Investments**	**Affiliate Investments**	**Non-affiliate Investments**	**Total**
Fair value as of December 31, 2014	$13,173	$ 960	$ 1,532	$15,665
Realized gains (losses)	(2,850)	—	372	(2,478)
Change in unrealized appreciation (depreciation)	1,550	4,667	(580)	5,637
Purchases of portfolio securities	—	—	54	54
Proceeds from sales/dispositions	(3,158)	—	(463)	(3,621)
Fair value as of June 30, 2015 (unaudited)	$8,715	$ 5,627	$ 915	$15,257

The following table provides a reconciliation of fair value changes during the six months ended June 30, 2014 for all investments for which we determine fair value using unobservable (Level 3) factors:

(in thousands)	**Fair value measurements using significant unobservable inputs (Level 3)**			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2013	$11,105	$ 250	$ 1,980	$13,335
Realized gains (losses)	—	—	(63)	(63)
Change in unrealized appreciation (depreciation)	800	718	(21)	1,497
Purchases of portfolio securities	139	—	117	256
Proceeds from sales/dispositions	—	—	63	63
Fair value as of June 30, 2014 (unaudited)	$12,044	$ 150	$ 2,076	$15,088

Foreign Exchange—We record temporary changes in foreign exchange rates of portfolio securities denominated in foreign currencies as changes in fair value. These changes are therefore reflected as unrealized gains or losses until realized.

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

Table of Contents 18

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are defined as investments in companies in which the Fund 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 we own 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.

As of June 30, 2015 and December 31, 2014, we had no outstanding commitments to our portfolio company investments; however, under certain circumstances, we may be called on to make follow-on investments in certain portfolio companies. If we do not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, our equity interest in the estimated fair value of the portfolio company could be reduced. Follow-on investments may include capital infusions which are expenditures made directly to the portfolio company to ensure that operations are completed, thereby allowing the portfolio company to generate cash flows to service the debt.

Interest Income Recognition—We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We accrete or amortize 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. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We will write off uncollectible interest upon the occurrence of a definitive event such as a sale, bankruptcy, or reorganization of the relevant portfolio interest.

Payment in Kind Interest (PIK)—We have loans in our portfolio that may pay PIK interest. We add 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 our status as a RIC, we must pay out to stockholders this non-cash source of income in the form of dividends even if we have not yet collected any cash in respect of such investments. We 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.

Cash Flows—For purposes of the Statements of Cash Flows, we consider all highly liquid temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. We include our investing activities within cash flows from operations. We exclude “Restricted Cash and Temporary Cash Investments” used for purposes of complying with RIC requirements from cash equivalents.

Taxes—We intend 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. We borrow money from time to time to maintain our tax status under the Internal Revenue Code as a RIC. See Note 1 for discussion of Taxable Subsidiaries and see Note 2 for further discussion of the Fund's RIC borrowings.

All corporations incorporated in the State of Delaware are required to file an Annual Report and to pay a franchise tax. As a result, we paid Delaware Franchise tax in the amount of $0.02 million for the year ended December 31, 2014.

Texas margin tax applies to legal entities conducting business in Texas. 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. As a result, we did not owe state income tax for the year ended December 31, 2014.

Significant Unobservable Inputs — Our investment portfolio is not composed of homogeneous debt and equity securities that can be valued with a small number of inputs. Instead, the majority of our investment portfolio is composed of complex debt and equity securities with distinct contract terms and conditions. As such, our valuation of each investment in our portfolio is unique and complex, often factoring in numerous different inputs, including historical and forecasted financial and operational performance of the portfolio company, project cash flows, market multiples comparable market transactions, the priority of our securities compared with those of other investors, credit risk, interest rates, independent valuations and reviews and other inputs.

Table of Contents 19

The following table summarizes the significant non-observable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of June 30, 2015 (unaudited):

(in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range Minimum	Range Maximum
Secured and subordinated debt	$915	Yield-to-maturity	Discount for lack of marketability	0 %	0 %
Common stock	5,627	Income/Market approach	EBITDA Multiple/Discount for lack of marketability/Control premium	0 %	35 %
		Asset approach	Recovery rate	0 %	100 %
Limited liability company investments	8,715	Discounted cash flow; Guideline transaction method	Reserve adjustment factors	75%	100 %
	$15,257				

(4) Related Party Transactions and Agreements

Except as noted below, 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 $15,000 is paid to the Chairman of the Audit Committee and a quarterly fee of $3,750 is paid to the Chairman of the Independent Directors. We may also pay other one-time or recurring fees to members of our Board of Directors in special circumstances. None of our interested directors receive annual fees for their service on the Board of Directors.

In 2011, Equus Energy, LLC, a wholly-owned subsidiary of the Fund, entered into a consulting agreement with Global Energy Associates, LLC (“Global Energy”) to provide consulting services for energy related investments. Henry W. Hankinson, Director, is a managing partner and co-founder of Global Energy. Payments to Global Energy totaled $37,500 for each of the six months ended June 30, 2015 and 2014.

In respect of services provided to the Fund by members of the Board not in connection with their roles and duties as directors, the Fund pays a fixed amount at a rate of $250 per hour for services rendered. During the six months ended June 30, 2015 and 2014, we paid Kenneth I. Denos, P.C., a professional corporation owned by Kenneth I. Denos, a director of the Fund, $163,813 and $176,125, respectively, for services provided the Fund.

(5) Dividends

We will pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

(6) Portfolio Securities

On January 6, 2015, we sold our interests in Spectrum to 5th Element Tracking, LLC ("5th Element"). The purchase price of $3.9 million paid by 5th Element consisted of $3.0 million in cash and a 1-year subordinated note in the original principal amount of $0.9 million, bearing interest at the rate of 14% per annum. We realized a net capital loss of $2.8 million in connection with the sale of our interest in Spectrum.

Also on January 6, 2015, in connection with the sale of our interest in Spectrum, our $0.5 million loan to Security Monitor Holdings, LLC, together with all accrued interest amounting to approximately $0.1 million, was repaid.

On January 30, 2015, we received a partial redemption payment in respect of our holding of OPG Notes in the amount of €36,587 [$41,478].

On February 20, 2015, we sold our OPG Notes at a discount of 23% to their par value, receiving $1.0 million in cash and a realized gain of $0.4 million.

During the six months ended June 30, 2015, we received dividends in the form of additional shares of $0.1 million relating to our shareholding in MVC.

During the six months ended June 30, 2015, we recorded a net change in unrealized appreciation of $5.9 million, to a net unrealized appreciation of $2.4 million. Such change in unrealized appreciation resulted primarily from the following changes:

(i) Decrease in the fair value of our holdings in Equus Energy, LLC of $1.3 million, principally due to a combination of decreased production and declining oil and prices;

(ii) Increase in the fair value of our shareholding in MVC of $0.2 million due to an increase in the MVC share price during the period, along with dividends received in the form of additional MVC shares;

(iii) Increase in fair value of our shareholding in PalletOne, Inc. of $4.7 million due to an overall improvement in the industry sector for packaging companies, as well as continued revenue and earnings growth;

(iv) Transfer of unrealized depreciation to realized gain on our holding of OPG Notes of $0.4 million in connection with the sale of our interest in the OPG Notes; and

(v) Transfer of unrealized depreciation to realized loss on our holdings in Spectrum of $2.9 million in connection with the sale of our interest in Spectrum.

On April 3, 2014, we sold all of our 73,666 remaining shares of OPG, wherein we received $61,867 in net proceeds and reported a realized loss of $0.06 million.

During the six months ended June 30, 2014, we capitalized legal and consulting expenses of $0.1 million relating to our investment in Spectrum Management. We also received a semi-annual interest payment of $0.04 million in cash and $0.1 million in the form of PIK'd interest in respect of our €1.2 million [$1.5 million] in OPG notes. On May 14, 2014, we sold to MVC 2,112,000 shares of the Fund's common stock in exchange for 395,839 shares of MVC (see *Plan of Reorganization – Share Exchange with MVC Capital* below).

During the six months ended June 30, 2014, we realized net capital gains of $0.7 million related to our Share Exchange with MVC (see *Plan of Reorganization – Share Exchange with MVC Capital* below).

Net unrealized depreciation on investments decreased $1.0 million during the six months ended June 30, 2014, to a net unrealized depreciation of $3.0 million. Such change in unrealized appreciation resulted primarily from the following changes:

(i) Increase in fair value of our holding in Equus Energy, LLC of $0.8 million due to an increase in comparable transactions for mineral leases, continued improved economic conditions, industry outlook, pricing assumptions, as well as additional proved reserves from new drilling and recompletion activities;

(ii) Increase in fair value of our shareholding in PalletOne, Inc. of $0.7 million due to an improvement in the industry sector for packaging companies and continued revenue and earnings growth; and

(iii) Decrease in fair value of our shareholding in MVC of $0.4 million due to a difference between our cost basis in the MVC shares and the closing trading price of the MVC shares on June 30, 2014. Our cost basis included the closing trading price of the shares on May 14, 2014 (the closing date of the Share Exchange) as well as capitalized transaction costs of $0.5 million incurred in connection with the Share Exchange.

(7) Plan of Reorganization - Share Exchange with MVC Capital

On May 14, 2014, we announced that the Fund intended to effect a reorganization pursuant to Section 2(a)(33) of the 1940 Act. As a first step to consummating the reorganization, we sold to MVC 2,112,000 newly-issued shares of the Fund's common stock in exchange for 395,839 shares of MVC (such transaction is hereinafter referred to as the "Share Exchange"). MVC is a business development company traded on the New York Stock Exchange that provides long-term debt and equity investment capital to fund growth, acquisitions and recapitalizations of companies in a variety of industries. The Share Exchange was calculated based on the Fund's and MVC's respective net asset value per share. At the time of the Share Exchange, the number of MVC shares received by Equus represented approximately 1.73% of MVC's total outstanding shares of common stock.

Pursuant to the terms of a Share Exchange Agreement, dated May 12, 2014, entered into by Equus and MVC which memorialized the Share Exchange, we intend to finalize the reorganization by pursuing a merger or consolidation with MVC, a subsidiary of MVC, or one or more of MVC's portfolio companies (the "Consolidation"). Absent Equus merging or consolidating with/into MVC or a subsidiary thereof, our current intention is for Equus to (i) consummate the Consolidation with a portfolio company of MVC, (ii) terminate its election to be classified as a BDC under the 1940 Act, and (iii) be restructured as a publicly-traded operating company focused on the energy and/or financial services sector. Our original intention was to consummate the Consolidation within one year from the date of our announcement, although actual completion will require additional time.

(8) Equus Energy, LLC

Equus Energy was formed in November 2011 as a wholly-owned subsidiary of the Fund to make investments in companies in the energy sector, with particular emphasis on income-producing oil & gas properties. In December 2011, we contributed $250,000 to the capital of Equus Energy. On December 27, 2012, we invested an additional $6.8 million in Equus Energy for the purpose of additional working capital and to fund the purchase of $6.6 million in working interests in 132 producing and non-producing oil and gas wells (which has since decreased to 130). The working interests include associated development rights of approximately 21,220 acres situated on 13 separate properties in Texas and Oklahoma. The working interests range from a *de minimus* amount to 50% of the leasehold that includes these wells.

The wells are operated by a number of experienced operators, including Chevron USA, Inc., which has operating responsibility for all of Equus Energy's 40 producing well interests located in the Conger Field, a productive oil and gas field on the edge of the Permian Basin that has experienced successful gas and hydrocarbon extraction in multiple formations. Equus Energy, which holds a 50% working interest in each of these Conger Field wells, is working with Chevron in a recompletion program of existing Conger Field wells to the Wolfcamp formation, a zone containing oil as well as gas and natural gas liquids. Part of Equus Energy's acreage rights described above also includes a 50% working interest in possible new drilling to the base of the Canyon formation (approximately 8,500 feet) on 2,400 acres in the Conger Field. Also included in the interests acquired by Equus Energy are working interests of 7.5% and 2.5% in the Burnell and North Pettus Units, respectively, which collectively comprise approximately 13,000 acres

located in the area known as the “Eagle Ford Shale” play.

Revenue and Income. During the three months ended June 30, 2015, Equus Energy’s revenue, operating revenue less direct operating expenses, and net loss were $0.3 million, $0.05 million, and ($0.2) million, respectively, as compared to revenue, operating revenue less direct operating expenses, and net loss of $0.5 million, $0.3 million, and ($0.1) million, respectively, for the three months ended June 30, 2014. During the six months ended June 30, 2015, Equus Energy’s revenue, operating revenue less direct operating expenses, and net loss were $0.6 million, $0.07 million, and ($0.5) million, respectively, as compared to revenue, operating revenue less direct operating expenses, and net loss of $1.1 million, $0.5 million, and ($0.3) million, respectively, for the six months ended June 30, 2014.

Capital Expenditures. During the six months ended June 30, 2015, Equus Energy invested $0.05 million in capital expenditures for recompletion activities. The operators of the various working interest have communicated their intent to wait until later in 2015, commensurate with an anticipated gradual rise in the price of crude oil, to commence new drilling and recompletion projects.

We do not consolidate Equus Energy or its wholly-owned subsidiaries and accordingly only the value of our investment in Equus Energy is included on our statement of assets and liabilities. Our investment in Equus Energy is valued in accordance with our normal valuation procedures and is based in part on using a discounted cash flow analysis based on a reserve report prepared for Equus Energy by Lee Keeling & Associates, Inc., an independent petroleum engineering firm, the transactions and values of comparable companies in this sector, and the estimated value of leasehold mineral interests associated with the acreage held by Equus Energy. A valuation of Equus Energy was performed by a third-party valuation firm, who recommended a value range of Equus Energy consistent with the fair value (See ***Schedule of Investments***).

Below is summarized consolidated financial information for Equus Energy as of June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and 2014, respectively, (in thousands):

EQUUS ENERGY, LLC

Consolidated Balance Sheets

(unaudited)

	June 30, 2015	**December 31, 2014**
Assets		
Current assets:		
Cash and cash equivalents	$614	$ 613
Accounts receivable	155	310
Due from affiliate	14	—
Prepaid expenses/deposits	—	35
Total current assets	783	958
Oil and gas properties	8,245	8,200
Less: accumulated depletion, depreciation and amortization	(2,117)	(1,768)
Net oil and gas properties	6,128	6,432
Other non-current investment	193	193
Total assets	$7,104	$ 7,583
Liabilities and members capital		
Current liabilities:		
Accounts payable and other	$76	$ 71
Due to affiliate	611	611
Total current liabilities	687	682
Asset retirement obligations	181	183
Total liabilities	868	865
Total members capital	6,236	6,718
Total liabilities and members capital	$7,104	$ 7,583

Revenue and direct operating expenses for the various oil and gas assets included in the accompanying statements represent the net collective working and revenue interests acquired by Equus Energy. The revenue and direct operating expenses presented herein relate only to the interests in the producing oil and natural gas properties and do not represent all of the oil and natural gas operations of all of these properties. Direct operating expenses include lease

operating expenses and production and other related taxes. General and administrative expenses, depletion, depreciation and amortization (“DD&A”) of oil and gas properties and federal and state taxes have been excluded from direct operating expenses in the accompanying statements of revenues and direct operating expenses because the allocation of certain expenses would be arbitrary and would not be indicative of what such costs would have been had Equus Energy been operated as a stand-alone entity. The statements of revenue and direct operating expenses presented are not indicative of the financial condition or results of operations of Equus Energy on a go forward basis due to changes in the business and the omission of various operating expenses.

Table of Contents 23

EQUUS ENERGY, LLC

Consolidated Statements of Operations

(unaudited)

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	2015	2014
Operating revenue	$309	$532	$592	$1,072
Operating expenses				
Direct operating expenses	263	262	522	596
Depletion, depreciation, amortization and accretion	162	298	348	494
General and administrative	75	80	204	232
Total operating expenses	500	640	1,074	1,322
Net loss	$(191)	$(108)	$(482)	$(250)

EQUUS ENERGY, LLC

Consolidated Statements of Cash Flows

(unaudited)

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(482)	$(250)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	348	494
Changes in operating assets and liabilities:		
Accounts receivable and other	176	(12)
Affiliate payable/receivable	—	202
Accounts payable and other	5	(214)
Net cash provided by operating activities	47	220
Cash flows from investing activities:		
Investment in oil & gas properties	(46)	(101)
Other investments	—	(178)
Net cash used in investing activities	(46)	(279)

Net increase (decrease) in cash	1	(59)
Cash and cash equivalents at beginning of period	613	486
Cash and cash equivalents at end of period	$614	$427

Critical Accounting Policies for Equus Energy – Equus Energy and its wholly-owned subsidiary EQS Energy Holdings, Inc. (collectively, "the Company") follow the *Full Cost Method of Accounting* for oil and gas properties. Under the full cost method, all costs associated with property acquisition, exploration, and development activities are capitalized. Capitalized costs include lease acquisitions, geological and geophysical work, delay rentals, costs of drilling, completing and equipping successful and unsuccessful oil and gas wells and related costs. Gains or losses are normally not recognized on the sale or other disposition of oil and gas properties. Gains or losses are normally reflected as an adjustment to the full cost pool.

The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves and estimated cost of dismantlement and abandonment, net of salvage value, are amortized on a unit-of-production method over the estimated productive life of the proved oil and gas reserves. Unevaluated oil and gas properties are excluded from this calculation. Depletion, depreciation and amortization expense for the Company's oil and gas properties totaled $0.2 million and $0.3 million, respectively, for the three months ended June 30, 2015 and June 30, 2014 and $0.4 million for the six months ended June 30, 2015 compared to $0.5 million for the six months ended June 30, 2014.

Capitalized oil and gas property costs are limited to an amount (the ceiling limitation) equal to the sum of the following:

(a) As of June 30, 2015, the present value of estimated future net revenue from the projected production of proved oil and gas reserves, calculated at the simple arithmetic average, first-day-of-the-month prices during the twelve-month period before the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements) and a discount factor of 10%;

(b) The cost of investments in unproved and unevaluated properties excluded from the costs being amortized; and

(c) The lower of cost or estimated fair value of unproved properties included in the costs being amortized.

When it is determined that oil and gas property costs exceed the ceiling limitation, an impairment charge is recorded to reduce its carrying value to the ceiling limitation. The Company did not recognize an impairment loss on its oil and gas properties during 2014 or during the six months ended June 30, 2015.

The costs of certain unevaluated leasehold acreage and certain wells being drilled are not amortized. The Company excludes all costs until proved reserves are found or until it is determined that the costs are impaired. Costs not amortized are periodically assessed for possible impairment or reduction in value. If a reduction in value has occurred, costs being amortized are increased accordingly.

Revenue Recognition - Revenue recognized for oil and natural gas sales under the sales method of accounting. Under this method, revenue recognized on production as it is taken and delivered to its purchasers. The volumes sold may be more or less than the volumes entitled to, based on the owner’s net leasehold interest. These differences result from production imbalances, which are not significant, and are reflected as adjustments to proven reserves and future cash flows in the unaudited consolidated financial information included herein.

Accounting Policy on DD&A - The Company employs the “Units of Production” method in calculating depletion of its proved oil and gas properties, wherein capitalized costs, as adjusted for future development costs and asset retirement obligations, are amortized over the total estimated proved reserves.

Income Taxes -A limited liability company is not subject to the payment of federal income taxes as components of its income and expenses flow through directly to the members. However, the Company is subject to certain state income taxes. Texas margin tax applies to legal entities conducting business in Texas. 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. Taxable Subsidiaries may generate income tax expense because of the Taxable Subsidiaries' ownership of the portfolio companies. We reflect any such income tax expense on our Statements of Operations. As of June 30, 2015 and June 30, 2014, the Company recorded $0 in federal income taxes, respectively.

Asset Retirement Obligations - The fair value of asset retirement obligations are recorded in the period in which they are incurred if a reasonable estimate of fair value can be made, and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The fair value of the asset retirement obligation is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate. Fair value, to the extent possible, should include a market risk premium for unforeseeable circumstances. No market risk premium was included in the Company's asset retirement obligation fair value estimate since a reasonable estimate could not be made. The liability is accreted to its then present value each period, and the capitalized cost is depleted or amortized over the estimated recoverable reserves using the units-of-production method.

(9) Recent Accounting Pronouncements

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The new guidance modifies the consolidation analysis for limited partnerships and similar type entities as well as variable interests in a variable interest entity, particularly those that have fee arrangements and related party relationships. Additionally, it provides a scope exception to the consolidation guidance for certain entities. The amendments in ASU No. 2015-02 are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). The new guidance removes the requirement that investments for which NAV is determined based on practical expedient reliance be reported utilizing the fair value hierarchy. ASU No. 2015-07 shall be applied retrospectively for periods beginning on or after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

(10) Subsequent Events

Management performed an evaluation of the Fund's activity through the date the financial statements were issued, noting there were no subsequent events.

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

Equus Total Return, Inc. (*"we," "us," "our," "Equus," the "Company," and the "Fund"*), a Delaware corporation, was formed on August 16, 1991. Our shares trade on the New York Stock Exchange under the symbol 'EQS'. Our investment strategy seeks to provide the highest total return, consisting of capital appreciation and current income.

We attempt to maximize the return to stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value of between $5.0 million and $75.0 million, although we may engage in transactions with smaller or larger investee companies from time to time. We seek to invest primarily in companies pursuing growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses or special situations. Our income-producing investments consist principally of debt securities including subordinate debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies (and smaller public companies) in transactions negotiated directly with such companies. Given market conditions over the past several years and the performance of our portfolio, our management and Board of Directors believe it is prudent to continue to review alternatives to refine and further clarify the current strategies.

We elected to be treated as a BDC under the 1940 Act. We currently qualify as a RIC for federal income tax purposes and, therefore, are not required to pay corporate income taxes on any income or gains that we distribute to our stockholders. We have certain wholly owned Taxable Subsidiaries each of which holds one or more portfolio investments listed on our Schedules of Investments. The purpose of these Taxable Subsidiaries is to permit us to hold certain income-producing investments or portfolio companies organized as limited liability companies, or LLCs, (or

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

Plan of Reorganization

On May 14, 2014, we announced that the Fund intended to effect a reorganization pursuant to Section 2(a)(33) of the 1940 Act. As a first step to consummating the reorganization, we sold to MVC 2,112,000 newly-issued shares of the Fund's common stock in exchange for 395,839 shares of MVC (such transaction is hereinafter referred to as the "Share Exchange"). MVC is a business development company traded on the New York Stock Exchange that provides long-term debt and equity investment capital to fund growth, acquisitions and recapitalizations of companies in a variety of industries. The Share Exchange was calculated based on the Fund's and MVC's respective net asset value per share. The number of MVC shares received by Equus represents approximately 1.73% of MVC's total outstanding shares of common stock. The number of Equus shares sold to MVC pursuant to the Share Exchange represents approximately 16.7% of our issued and outstanding shares of common stock at March 31, 2015. We incurred dilution of $0.11 per share as a result of the Share Exchange. Since the announcement, we have received 20,107 shares of MVC (market value of $0.2 million calculated as of the date of receipt) in the form of dividend payments.

Pursuant to the terms of a Share Exchange Agreement, dated May 14, 2014, entered into by Equus and MVC which memorialized the Share Exchange, we intend to finalize the reorganization by pursuing a merger or consolidation with MVC, or a subsidiary of MVC, or one or more of MVC's portfolio companies (the "Consolidation"). Absent Equus merging or consolidating with/into MVC, our current intention is for Equus to (i) consummate the Consolidation, (ii) terminate its election to be classified as a business development company under the 1940 Act, and (iii) be restructured as a publicly-traded operating company focused on the energy and/or financial services sector.

Critical Accounting Policies

See the Fund's Critical Accounting Policies from the disclosure set forth in the Annual Report on Form10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The new guidance modifies the consolidation analysis for limited partnerships and similar type entities as well as variable interests in a variable interest entity, particularly those that have fee arrangements and related party relationships. Additionally, it provides a scope exception to the consolidation guidance for certain entities. The amendments in ASU No. 2015-02 are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). The new guidance removes the requirement that investments for which NAV is determined based on practical expedient reliance be reported utilizing the fair value hierarchy. ASU No. 2015-07 shall be applied retrospectively for periods beginning on or after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

Current Market Conditions

Although the U.S. economy expanded 2.43% in 2014, it contracted at an annualized rate of 0.2% in the first quarter of 2015, repeating a drop of 1% on an annualized basis during the first quarter of 2014. Growth in the second quarter of 2015 has been weak but is expected to accelerate in the second half of 2015, with an annual growth rate of 2.4% predicted for the year. (Sources: *U.S. Dept. of Commerce Bureau of Economic Analysis, Forbes, the Associated Press, CNBC*)

Market conditions for business transactions including mergers and acquisitions and private equity investments during 2014 and the first half of 2015 improved to their highest level since prior to the 2008 financial crisis, as corporations have been deleveraging and are holding significant amounts of cash and many have focused on acquisitions as part of future growth plans. The U.S., which has accounted for almost half of worldwide merger and acquisition activity during 2015, recorded a record $1 trillion worth of transactions during the first six months of 2015, an increase of approximately 60% over the same period in 2014. Commensurately, worldwide and U.S. private equity activity grew sharply as well during the first six months of 2015, increasing approximately 49% and 93%, respectively, as compared to the same period in 2014. (Source: *Fortune*)

During the six months ended June 30, 2015, our net asset value increased from $2.86 per share to $3.00 per share, an increase of 4.9%. As of June 30, 2015, our common stock is trading at a 36.6% discount to our net asset value as compared to 26.5% as of December 31, 2014.

Over the past several years, we have executed certain initiatives to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and realize certain of our portfolio investments. Specifically, we changed the composition of our Board of Directors and Management, terminated certain of our follow-on investments, internalized the management of the Fund, suspended our managed distribution policy, modified our investment strategy to pursue shorter term liquidation opportunities, pursued non-cash investment opportunities, and sold certain of our legacy and underperforming investment holdings. We believe these actions continue to be necessary to protect capital and liquidity in order to preserve and enhance shareholder value. Because our Management is internalized, certain of our expenses should not increase commensurate with an increase in the size of the Fund and, therefore, we expect to achieve efficiencies in our cost structure if we are able to grow the Fund.

Liquidity and Capital Resources

We generate cash primarily from maturities, sales of securities and borrowings, as well as capital gains realized upon the sale of portfolio investments. We use cash primarily to make additional investments, either in new companies or as follow-on investments in the existing portfolio companies and to pay the dividends to our stockholders.

Because of the nature and size of the portfolio investments, we may periodically borrow funds to make qualifying investments to maintain our tax status as a RIC. We often borrow 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.

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.

We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We have followed valuation techniques in a consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Results of Operations

Investment Income and Expense

Net investment loss was unchanged at $0.6 million and $0.7 million for the three months ended June 30, 2015 and June 30, 2014, respectively, and $1.7 million and $1.2 million for the six months ended June 30, 2015 and June 30, 2014, respectively. The increase in net investment loss generated at June 30, 2015 compared to June 30, 2014 is due primarily to a decrease in total investment income and an increase in operating expense.

Investment income was $0.09 million and $0.06 million for the three months ended June 30, 2015 and June 30, 2014, respectively, and $0.1 million and $0.3 million for the six months ended June 30, 2015 and June 30, 2014, respectively. The decrease in investment income was primarily due to the decrease in income producing investments due to the sale of our interests in SMH, Spectrum, and OPG during the three months ended March 31, 2015.

Total expenses were $0.7 and $0.8 million for the three months ended June 30, 2015 and June 30, 2014, respectively, and $1.8 million and $1.5 million for the six months ended June 30, 2015 and June 30, 2014, respectively. The increase in expenses was primarily due to officer and employee bonuses earned during the period.

Realized Gains and Losses on Sales of Portfolio Securities

During the six months ended June 30, 2015, we realized net capital losses of $2.5 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Transaction Type	Realized Gain (Loss)
Spectrum Management, LLC	Business products and services	Control	Disposition	$(2,850)
Orco Property Group S. A.	Real Estate	Non-affiliate	Disposition	372
Various others			Disposition	(5)
				$(2,483)

Table of Contents 28

During the six months ended June 30, 2014, we realized net capital gains of $0.7 million, including the following significant transactions:

(i) On April 3, 2014, we sold all of our 73,666 remaining shares of OPG, wherein we received $61,867 in net proceeds and reported a realized loss of $0.06 million.

(ii) During the six months ended June, 2014, we realized net capital gains of $0.7 million related to our Share Exchange with MVC (see *Plan of Reorganization* above).

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

During the six months ended June 30, 2015, we recorded a net change in unrealized appreciation of $5.9 million, to a net unrealized appreciation of $2.4 million. Such change in unrealized appreciation resulted primarily from the following changes:

(i) Decrease in the fair value of our holdings in Equus Energy, LLC of $1.3 million, principally due to a combination of decreased production and declining oil and prices;

(ii) Increase in the fair value of our shareholding in MVC of $0.2 million due to an increase in the MVC share price during the period, along with dividends received in the form of additional MVC shares ;

(iii) Increase in fair value of our shareholding in PalletOne, Inc. of $4.7 million due to an overall improvement in the industry sector for packaging companies, as well as continued revenue and earnings growth;

(iv) Transfer of unrealized depreciation to realized gain on our holding of OPG Notes of $0.4 million in connection with the sale of our interest in the OPG Notes; and

(v) Transfer of unrealized depreciation to realized loss on our holdings in Spectrum of $2.9 million in connection with the sale of our interest in Spectrum.

Net unrealized depreciation on investments decreased $1.0 million during the six months ended June 30, 2014, to a net unrealized depreciation of $3.0 million. Such change in unrealized appreciation resulted primarily from the following changes:

(i) Increase in fair value of our holding in Equus Energy, LLC of $0.8 million due to an increase in comparable transactions for mineral leases, continued improved economic conditions, industry outlook, pricing assumptions, as well as additional proved reserves from new drilling and recompletion activities;

(ii) Increase in fair value of our shareholding in PalletOne, Inc. of $0.7 million due to an improvement in the industry sector for packaging companies and continued revenue and earnings growth; and

(iii) Decrease in fair value of our shareholding in MVC of $0.4 million due to a difference between our cost basis in the MVC shares and the closing trading price of the MVC shares on June 30, 2014. Our cost basis included the closing trading price of the shares on May 14, 2014 (the closing date of the Share Exchange) as well as capitalized transaction costs of $0.5 million incurred in connection with the Share Exchange.

Dividends

We will pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the Investment Company Act of 1940.

Portfolio Securities

During the six months ended June 30, 2015, we received dividends in the form of additional shares of $0.1 million relating to our shareholding in MVC. As a result of the sale of our interests in Spectrum to 5th Element Tracking, LLC, we received $3.0 million in cash and a 1-year subordinated note in the original principal amount of $0.9 million, bearing interest at the rate of 14% per annum.

During the six months ended June, 2014, we capitalized legal and consulting expenses of $0.1 million relating to Spectrum Management. We also received a semi-annual interest payment of $0.04 million in cash and $0.1 million in the form of PIK’d interest in respect of our €1.2 million [$1.5 million] in OPG notes. On May 14, 2014, we sold to MVC 2,112,000 shares of the Fund’s common stock in exchange for 395,839 shares of MVC. (see *Plan of Reorganization – Share Exchange with MVC Capital* above).

Subsequent Events

Management performed an evaluation of the Fund's activity through the date the financial statements were issued, noting that there were no subsequent events.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are 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. In the future, in addition to our investment in the OPG notes, we may invest in companies outside the United States, including in Europe and Asia, which would give rise to exposure to foreign currency value fluctuations. We do not use derivative financial instruments to mitigate any of these risks. The return on investments is generally not affected by foreign currency fluctuations.

Our 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 affect 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. We determine their fair values based on the terms of the relevant debt security and the financial condition of the issuer.

A major portion of our 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 could also consist of common stock 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.

We are classified as a "non-diversified" investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called "Energy" includes one portfolio company, Equus Energy, LLC, and was 22.4% of the net asset value and 43.6% of our investments in portfolio company securities (at fair value) as of June 30, 2015. Changes in business or industry trends or in the financial condition, results of operations, or the market's assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a "diversified" company holding numerous investments.

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 June 30, 2015. 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 June 30, 2015, that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Champion Window Arbitration Settlement—In January 2006, we sold our 31.5% ownership interest in Champion Window, Inc. ("Champion"), a portfolio company of the Fund, to Atrium Companies Inc. ("Atrium") pursuant to a Stock Purchase Agreement ("SPA") dated December 22, 2005. The SPA contained certain limited rights of indemnification for Atrium in connection with its purchase of such ownership interest.

More than five years after the closing of the sale of our Champion interest, Atrium filed suit in Texas state court, which was subsequently consolidated into an Arbitration Action, against two former officers of Champion, Equus, and another former Champion shareholder. The suit alleged breaches of fiduciary duty against Champion's former officers for hiring undocumented workers that were discovered as a result of an investigation by the U.S. Immigration and Customs Enforcement agency ("ICE") into Atrium's hiring practices. The suit also sought indemnification under the SPA from these officers, Equus, and another former Champion shareholder, for a payment of $2.0 million made to ICE in settlement of the investigation and associated legal costs, as well as for claimed lost profits as a result of the investigation.

On February 4, 2015, without admitting to any liability on the part of Equus, we entered into a settlement agreement with Atrium and its associated companies. Pursuant to the settlement agreement and in view of the estimated costs of protracted litigation and the associated disruption to the operations of the Fund, we agreed to pay $500,000, in complete settlement of the lawsuit, as being in the best interests of the Fund and its shareholders. The settlement payment was made on February 6, 2015. Atrium filed a motion to dismiss the lawsuit with prejudice on February 4, 2015.

Indemnification Settlement—Effective June 13, 2013, the Fund entered into a settlement agreement with Sam Douglass, a former director and executive officer of the Fund, in respect of a claim for indemnification pursuant to the General Corporation Law of Delaware and an indemnification agreement entered into by the Fund with Mr. Douglass on May 3, 2001. The settlement agreement provides for the reimbursement to Mr. Douglass of actual expenses incurred, excluding any fines or penalties, in connection with an enforcement action initiated by the Securities and Exchange Commission against Mr. Douglass in 2009. The settlement payment of $125,000 was made on June 24, 2013.

Lawsuit Settlement—On August 12, 2012, Paula Douglass filed a lawsuit against the Fund and members of the Board of Directors in the District Court of Harris County, Texas. Ms. Douglass' complaint alleged various causes of action, including minority shareholder oppression, dilution, and breach of fiduciary duty, and sought unspecified damages and attorney's fees. Effective June 13, 2013, the Fund entered into a settlement agreement with Ms. Douglass, Sam Douglass, as well as certain trusts controlled by them. Pursuant to the settlement agreement and in view of the estimated costs of protracted litigation and the associated disruption to the operations of the Fund, the Board of Directors approved a payment of $402,254, in complete settlement of the lawsuit, as being in the best interests of the Fund and its shareholders. The settlement payment was made on July 30, 2013. Ms. Douglass filed a motion to dismiss the lawsuit with prejudice on August 8, 2013.

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

Item 1A. Risk Factors

There have been no material changes in the Fund's risk factors from the disclosure set forth in the Annual Report on Form 10-K for the year ended December 31, 2014.

Readers should carefully consider these risks and all other information contained in the annual report on Form 10-K, including the Fund's financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing the Fund.

Additional risks and uncertainties not presently known to the Fund, or not presently deemed material by the Fund, may also impair its operations and performance.

Item 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(b) to Registrant's Current Report on Form 8-K filed on June 30, 2014.]

10. Material Contracts.

(a) 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.]

(b) Form of Indemnification Agreement between the Fund and its directors and certain officers. [Incorporated by reference to Exhibit 10(d) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.]

(c) 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.]

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

(e) Share Exchange Agreement between the Fund and MVC Capital, Inc., dated May 14, 2014. [Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on May 15, 2014.]

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

1. Certification by Chief Executive Officer

2. Certification by Chief Financial Officer

32. Section 1350 Certifications

1. Certification by Chief Executive Officer

2. Certification by Chief Financial Officer

Table of Contents 32

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.

Date: August 12, 2015

EQUUS TOTAL RETURN, INC.

/s/ John A. Hardy
John A. Hardy
Chief Executive Officer

Table of Contents 33