EQUUS TOTAL RETURN, INC.
Form 10-Q
May 14, 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 March 31, 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 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 May 14, 2015.

Table of Contents

EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

INDEX

Table of Contents 2

EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

Part I. Financial Information

Item 1. Financial Statements

	March 31, 2015 (Unaudited)	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)	$ 9,215	$ 13,173
Affiliate investments (cost at $350 and $350 respectively)	2,208	960
Non-affiliate investments - related party (cost at $5,760 and $5,706 respectively)	3,890	3,981
Non-affiliate investments (cost at $915 and $1,097 respectively)	915	1,532
Total investments in portfolio securities at fair value	16,228	19,646
Cash and cash equivalents	18,971	15,697
Restricted cash and temporary cash investments	—	15,149
Accounts receivable from investments	616	614
Accrued interest receivable	30	764
Accrued dividend receivable	—	54
Accounts receivable and other	22	114
Total assets	35,867	52,038
Liabilities and net assets		
Accounts payable and accrued liabilities	222	664
Accounts payable to related parties	283	174
Borrowing under margin account	—	14,999
Total liabilities	505	15,837
Commitments and contingencies (see Note 2)		
Net assets	$ 35,362	$ 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	(18,031)	(16,956)
Undistributed net capital gains	—	660
Unrealized appreciation (depreciation) of portfolio securities, net	1,023	(1,840)
Unrealized depreciation of portfolio securities - related party, net	(1,870)	(1,725)

Total net assets	$ 35,362	$ 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	$ 2.79	$ 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 March 31, 2015	2014
Investment income:		
Interest and dividend income:		
Control investments	$—	$198
Non-affiliate investments	44	59
Total interest and dividend income	44	257
Interest from temporary cash investments	—	—
Total investment income	44	257
Expenses:		
Professional fees	327	291
Compensation expense	624	212
Director fees and expenses	95	96
General and administrative expense	41	100
Mailing, printing and other expenses	23	21
Taxes	7	6
Interest expense	1	—
Total expenses	1,118	726
Net investment loss	(1,074)	(469)
Net realized gain (loss):		
Control investments	(2,850)	—
Non-affiliate investments	372	—
Temporary cash investments	(5)	(1)
Net realized loss	(2,483)	(1)
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	1,023	(4,024)
Beginning of period	(1,840)	(3,956)
Net change in unrealized appreciation (depreciation) of portfolio securities	2,863	(68)
Net unrealized depreciation of portfolio securities - related party:		
End of period	(1,870)	—
Beginning of period	(1,725)	—
Net change in unrealized depreciation of portfolio securities - related party	(145)	—
Net decrease in net assets resulting from operations	$(839)	$(538)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	$(0.07)	$(0.05)

Weighted average shares outstanding:		
Basic and diluted	12,674	10,562

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)

(in thousands)	Three months ended March 31, 2015	2014
Net decrease in net assets resulting from operations	$(839)	$(538)
Net assets at beginning of period	36,201	33,217
Net assets at end of period	$35,362	$32,679

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)	Three months ended March 31, 2015	2014
Reconciliation of decrease in net assets resulting from operations to net cash provided by operating activities:		
Net decrease in net assets resulting from operations	$(839)	$(538)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Net realized loss	2,483	1
Net change in unrealized depreciation of portfolio securities	(2,863)	68
Net change in unrealized depreciation of portfolio securities - related party	145	
Changes in operating assets and liabilities:		
Purchase of portfolio securities	—	(74)
Net proceeds from dispositions of portfolio securities	372	—
Principal payments received from portfolio securities	4,255	—
Sales of temporary cash investments, net	15,144	15,149
Decrease (increase) in accounts receivable from investments	(2)	(4)
Increase in accrued interest receivable	(181)	(216)
Increase (decrease) in accounts receivable and other	92	(8)
(Decrease) increase in accounts payable and accrued liabilities	(442)	148
(Decrease) increase in accounts payable to related parties	109	99
Net cash provided by operating activities	18,273	14,625
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	3,274	(375)
Cash and cash equivalents at beginning of period	15,697	19,065
Cash and cash equivalents at end of period	$18,971	$18,690
Non-cash operating and financing activities:		
Accrued interest or dividends exchanged for portfolio securities	$915	$—
Accrued interest or dividends exchanged for portfolio securities - related party	$54	$—
Supplemental disclosure of cash flow information:		
Interest paid	$1	$—
Income taxes paid	$7	$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)

	Three months ending March 31, 2015	2014
Investment income	$0.00	$0.03
Expenses	0.09	0.07
Net investment loss	(0.09)	(0.04)
Net realized loss	(0.20)	—
Net change in unrealized depreciation	0.23	(0.01)
Net change in unrealized depreciation - related party	(0.01)	—
Net decrease in net assets	(0.07)	(0.05)
Net assets at beginning of period	2.86	3.14
Net assets at end of period, basic and diluted	$2.79	$3.09
Weighted average number of shares outstanding during period, in thousands	12,674	10,562
Market price per share:		
Beginning of period	$2.10	$1.99
End of period	$1.95	$1.92
Selected information and ratios:		
Ratio of expenses to average net assets	3.12 %	2.20 %
Ratio of net investment loss to average net assets	(3.00 %)	(1.48 %)
Ratio of net decrease in net assets resulting from operations to average net assets	(2.34 %)	(1.63 %)
Total return on market price [1]	(7.14 %)	(3.52 %)

[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

MARCH 31, 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	9,000
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	215
Total Control Investments: Majority-owned (represents 56.8% of total investments at fair value)					**$ 10,050**	**$** 9,215
Affiliate Investments[4]**:**						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.8%)		$ 350	$ 2,208
Total Affiliate Investments (represents 13.6% of total investments at fair value)					**$ 350**	**$** 2,208
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	September 2014	410,360 shares of common stock (1.7%) [5]		$ 5,760	$ 3,890
Total Non-Affiliate Investments - Related Party (represents 24.0% of total investments at fair value)					**$ 5,760**	**$** 3,890
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 5.6% of total investments at fair value)					**$ 915**	**$** 915
Total Investment in Portfolio Securities					**$ 17,075**	**$** 16,228

(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.

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

MARCH 31, 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 March 31, 2015, except for our shareholding in 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 56.8% of the total value of the investments in portfolio securities as of March 31, 2015.

Our investments in portfolio securities consist of the following types of securities as of March 31, 2015 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of **Net Assets**
Limited liability company investments	$10,050	$9,215	26.1 %
Common stock	6,110	6,098	17.2 %
Secured and subordinated debt	915	915	2.6 %
Total	$17,075	$16,228	45.9 %

The following is a summary by industry of the Fund’s investments in portfolio securities as of March 31, 2015 (in thousands):

Industry	Fair Value	Fair Value as Percentage of **Net Assets**	
Energy	$9,000	25.5	%
Financial services	3,890	11.0	%
Shipping products and services	2,208	6.2	%
Business products and services	915	2.6	%
Media	215	0.6	%
Total	$16,228	45.9	%

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

Table of Contents 9

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2014

(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	$ 9,80
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	21
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	3,15
Total Control Investments: Majority-owned (represents 38.0% of total investments at fair value)					**$ 16,058**	**$ 13,17**
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	10% promissory note due 2/18 [2][7]	$ 597	597	1,03

Paris, France						
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.

Table of Contents 10

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

DECEMBER 31, 2014

Except for our holding of shares of MVC and our notes of Orco Property Group S.A. (“OPG”), substantially all of our portfolio securities as of December 31, 2014 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.

Table of Contents 11

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 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 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 three months ended March 31, 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 Form 10-K for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission ("SEC").

(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 March 31, 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 March 31, 2015, we had cash and cash equivalents of $19.0 million. We had $16.2 million of our net assets of $35.4 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 March 31, 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 March 31, 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— During the years following the 2008 financial crisis and continuing to the present, the relatively limited amount of available debt financing for small and medium-sized companies such as Equus and its portfolio companies 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 three months of 2015, the price of our common stock continued to fall 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 2015 operating requirements.

(3) Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with 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 rating review process is completed. The risk rating 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. Our Management's preliminary fair value conclusions on each of the Fund's assets for which sufficient market quotations are not readily available, where determined by our Management, 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 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.

Table of Contents 16

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 $12.3 million and $15.7 million as of March 31, 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 March 31, 2015, one of our portfolio investments, 410,360 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, the Fund has performed a yield analysis assuming a hypothetical current sale of the security. The yield analysis considers changes in interest rates and changes in leverage levels of the portfolio company as compared to the market interest rates and leverage levels. Assuming the credit quality of the portfolio company remains stable, the Fund will use the value determined by the yield analysis as the fair value for that security.

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 March 31, 2015 and the year ended December 31, 2014.

As of March 31, 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 March 31, 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	$9,215	$ —	$ —	$ 9,215
Affiliate investments	2,208	—	—	2,208
Non-affiliate investments - related party	3,890	3,890	—	—
Non-affiliate investments	915	—	—	915
Total investments in portfolio securities	$16,228	$ 3,890	$ —	$ 12,338

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:

(in thousands)	**Total**	**Fair Value Measurements as of December 31, 2014** 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 three months ended March 31, 2015 for all investments for which we determine fair value using unobservable (Level 3) factors (unaudited):

(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, 2014	$13,173	$ 960	$ 1,532	$15,665
Realized gains (losses)	(2,850)	—	372	(2,478)
Change in unrealized appreciation (depreciation)	2,050	1,248	(580)	2,718
Purchases of portfolio securities	—	—	54	54
Proceeds from sales/dispositions	(3,158)	—	(463)	(3,621)
Fair value as of March 31, 2015 (unaudited)	$9,215	$ 2,208	$ 915	$12,338

The following table provides a reconciliation of fair value changes during the three months ended March 31, 2014 for all investments for which we determine fair value using unobservable (Level 3) factors (unaudited):

(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
Purchases of portfolio securities	74	—	—	74
Fair value as of March 31, 2014 (unaudited)	$11,179	$ 150	$ 1,980	$13,409

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.

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 March 31, 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.

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 March 31, 2015 (unaudited):

(in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range Minimum	Range Maximum
Secured and subordinated debt	$915	Enterprise value	Discount for lack of marketability	0 %	0 %
Common stock	2,208	Income/Market approach	EBITDA Multiple/Discount for lack of marketability/Control premium	0 %	35 %
Limited liability company investments	9,215	Asset approach	Recovery rate	0 %	100 %
		Discounted cash flow; Guideline transaction method	Reserve adjustment factors	75 %	100 %
	$12,338				

(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 $18,750 for each of the quarters ended March 31, 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 rate of $250 per hour for services rendered. During the quarters ended March 31, 2015 and 2014, we paid Kenneth I. Denos, P.C., a professional corporation owned by Kenneth I. Denos, a director of the Fund, $91,813 and $83,375, respectively, for services provided to 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].

Table of Contents 20

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 three months ended March 31, 2015, we recorded a net change in unrealized depreciation of $2.7 million, to a net unrealized depreciation of $0.8 million. Such change in unrealized depreciation resulted primarily from the following changes:

(i) Decrease in the fair value of our holdings in Equus Energy, LLC of $0.8 million, principally due to a combination of decreased production and declining oil and prices;

(ii) Decrease in the fair value of our shareholding in MVC of $0.1 million due to a decrease in the MVC share price during the quarter;

(iii) Increase in fair value of our shareholding in PalletOne, Inc. of $1.2 million due to an overall improvement in the industry sector for packaging companies, as well as continued revenue and earnings growth;

(iii) 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,

(iv) 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.

During the three months ended March 31, 2014, we capitalized legal and consulting expenses of $0.7 million relating to the sale of our holdings in Spectrum. We also received a semi-annual interest payment of $0.04 million in respect of our holding of €1.2 million [$1.5 million] in OPG notes.

During the three months ended March 31, 2014, we did not realize any significant gains or losses on sales of portfolio securities.

During the three months ended March 31, 2014, net unrealized depreciation on investments increased $0.07 million, to a net unrealized depreciation of $4.0 million. Such increase in unrealized depreciation is largely due to the decrease in fair value of our holdings in OPG of $0.1 million due to a decline in the price of our OPG shares, which we sold in April 2014.

(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 may 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 certain oil and gas working interests which are presently derived from 130 producing and non-producing oil and gas wells. 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

Table of Contents 21

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 (appx. 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 March 31, 2015, Equus Energy's revenue, operating revenue less direct operating expenses, and net loss were $0.3 million, $0.02 million, and ($0.3) million, respectively, as compared to revenue, operating revenue less direct operating expenses, and net loss of $0.5 million, $0.2 million, and ($0.1) million, respectively, for the three months ended March 31, 2014.

Capital Expenditures. During the three months ended March 31, 2015, Equus Energy did not make any capital expenditures or otherwise participate in any new drilling or recompletion activities. The operators of the various working interest have communicated their intent to wait until later in 2015, commensurate with a 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 we ascribed in our Schedule of Investments on page 39.

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

EQUUS ENERGY, LLC.

Consolidated Balance Sheets

(unaudited)

	March 31, 2015	**December 31, 2014**
Assets		
Current assets:		
Cash and cash equivalents	$635	$ 613
Accounts receivable	169	310
Prepaid expenses/deposits	14	35
Total current assets	818	958
Oil and gas properties	8,245	8,200
Less: accumulated depletion, depreciation and amortization	(1,957)	(1,768)
Net oil and gas properties	6,288	6,432
Other non-current investment	193	193
Total assets	$7,299	$ 7,583
Liabilities and members capital		
Current liabilities:		
Accounts payable and other	$82	$ 71
Due to affiliate	611	611
Total current liabilities	693	682
Asset retirement obligations	180	183
Total liabilities	873	865
Total members capital	6,426	6,718
Total liabilities and members capital	$7,299	$ 7,583

Table of Contents 22

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.

EQUUS ENERGY, LLC.

Consolidated Statements of Operations

(unaudited)

	Three months ended March 31,	
	2015	2014
Operating revenue	$284	$540
Operating expenses		
Direct operating expenses	259	335
Depletion, depreciation, amortization and accretion	186	196
General and administrative	131	151
Total operating expenses	576	682
Net loss	$(292)	$(142)

Table of Contents 23

EQUUS ENERGY, LLC.

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended	
	March 31, 2015	**March 31, 2014**
Cash flows from operating activities:		
Net loss	$(292)	$(142)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	186	196
Changes in operating assets and liabilities:		
Accounts receivable and other	162	79
Affiliate payable/receivable	—	14
Accounts payable and other	11	(203)
Net cash provided by (used in) operating activities	67	(56)
Cash flows from investing activities:		
Investment in oil & gas properties	(45)	(24)
Net cash used in investing activities	(45)	(24)
Net increase (decrease) in cash	22	(80)
Cash and cash equivalents at beginning of period	613	486
Cash and cash equivalents at end of period	$635	$406

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 for the three months ended March 31, 2015 and March 31, 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 March 31, 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 three months ended March 31, 2015.

Table of Contents 24

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 March 31, 2015 and March 31, 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) 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.

Table of Contents 25

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 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. 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. 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 14,521 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

We follow the accounting and reporting guidance in FASB Accounting Standards Codification 946. Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

Valuation of Investments— Portfolio investments are carried at fair value with the net change in unrealized appreciation or depreciation included in the determination of net assets. Valuations of portfolio securities are performed in accordance with GAAP and the financial reporting policies of the Securities and Exchange Commission. The applicable methods prescribed by such principles and policies are described below:

Publicly-traded portfolio securities—Investments in companies whose securities are publicly traded are generally valued at their quoted market price at the close of business on the valuation date.

Privately-held portfolio securities—The fair value of investments for which no market exists is determined on the basis of procedures established in good faith by our Board of Directors. As a general principle, the current "fair value" of an investment would be the amount we might reasonably expect to receive for it upon its current sale, in an orderly manner. Appraisal valuations are necessarily subjective and the estimated values arrived at by the Fund may differ materially from amounts actually received upon the disposition of portfolio securities.

Thinly Traded and Over-the-Counter Securities—Generally, we value securities that are traded in the over-the-counter market or on a stock exchange at the average of the prevailing bid and ask prices on the date of the relevant period end. However, we may apply a discount to the market value of restricted or thinly traded public securities to reflect the impact that these restrictions have on the value of these securities. We review factors, including the trading volume, total securities outstanding and our percentage ownership of securities to determine whether the trading levels are active (Level 1) or inactive (Level 2) or unobservable (Level 3). As of March 31, 2015, these securities, consisting of our holding of MVC shares, represented 10.9% of our investments in portfolio securities. We utilized independent pricing services with certain of our fair value estimates. To corroborate "bid/ask" quotes from independent pricing services, we perform a market-yield approach to validate prices obtained or obtain other evidence.

During the first twelve months after an investment is made, we rely on the original investment amount to determine the fair value unless significant developments have occurred during this 12 month period which would indicate a material effect on the portfolio company (such as results of operations or changes in general market conditions). After the 12 month period, or if material events have occurred within the twelve month period, 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 an asset 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.

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 we deem 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 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 we deem 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.

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 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.

The Audit Committee of the Board of Directors may engage independent, third-party valuation firms to conduct independent appraisals and review Management's preliminary valuations of each privately-held investment that the Fund (a) has held for more than one year and (b) holds on its books at a fair value of at least $2.0 million in order to make their own independent assessment. Any third-party valuation data would be considered as one of many factors in a fair value determination. The Audit Committee then would recommend the fair values for all privately-held securities based on all relevant factors to the Board of Directors for final approval.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $12.3 million and $15.7 million as of March 31, 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 March 31, 2015, one of our portfolio investments, 410,360 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*.

Federal Income Taxes

We intend to comply with the requirements of the Code necessary for us to qualify as a RIC. So long as we comply with these requirements, we generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. Therefore, we did not record a provision for federal income taxes in our financial statements. As of December 31, 2014, we had a capital loss carry forward of $31.9 million which may be used to offset future capital gains. We may borrow money from time to time to maintain our status as a RIC under the Code. See "—Overview – Financing Activities" above.

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 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 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.

Payment in Kind Interest

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 the Fund's status as a RIC, we must pay out to our 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.

Recent Accounting Pronouncements

In June 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-08, Financial Services—Investment Companies. ASU 2013-08 provides clarifying guidance to determine if an entity qualifies as an investment company. ASU 2013-08 also requires an investment company to measure non-controlling interests in other investment companies at fair value. The following disclosures will are required as a result of the adoption of ASU 2013-08: (i) whether an entity is an investment company and is applying the accounting and reporting guidance for investment companies; (ii) information about changes, if any, in an entity's status as an investment company; and (iii) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The requirements of ASU 2013-08 were effective for the Fund beginning in the first quarter of 2014. Our adoption of ASU 2013-08 did not affect our financial position or results of operations.

Current Market Conditions

Overall economic conditions in the United States have improved, albeit slowly, since the market downturn of 2008-09. The U.S. economy grew at 2.43% in 2014 but slowed to an annualized rate of 0.2% in the first quarter of 2015. Nevertheless, the International Monetary Fund is forecasting higher growth in 2015 (3.5%). Global growth for 2015 is also predicted at 3.5%, largely driven by growth in the U.S. and Asia, with the Euro zone predicted to grow at only 1.2%. (Sources: *Forbes, Reuters,* and *Newsweek*)

Market conditions for business transactions including mergers and acquisitions and private equity investments 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. Private equity activity increased 47% from 2013 to 2014, as private equity firms as a group enjoyed more success during the year in monetizing their investments through sales and public listings, and mergers and acquisition activity hit an 8-year high in the first quarter of 2015. (Sources: *USA Today* and *Fortune*)

During the three months ended March 31, 2015, our net asset value decreased from $2.86 per share to $2.79 per share, a decrease of 2.4%. As of March 31, 2015, our common stock is trading at a 30.1% 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 $1.1 million and $0.5 million for the three months ended March 31, 2015 and March 31, 2014, respectively. The decrease in net investment loss generated at March 31, 2015 compared to March 31, 2014 is due primarily to a decrease in total investment income and an increase in operating expense.

Investment income was $0.04 million for the three months ended March 31, 2015 compared to $0.3 million for the three months ended March 31, 2014. The decrease 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 increased $0.4 million for the three months ended March 31, 2015 compared to March 31, 2014, primarily due to officer and employee bonuses earned during the period.

Realized Gains and Losses on Sales of Portfolio Securities

During the three months ended March 31, 2015, we realized capital losses of $2.5 million, including the following significant transactions:

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			
				$(2,483)

During the three months ended March 31, 2014, we realized a loss of $0.1 million from the sale of temporary cash investments.

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

During the three months ended March 31, 2015, we recorded a net change in unrealized depreciation of $2.7 million, to a net unrealized depreciation of $0.8 million. Such change in unrealized depreciation resulted primarily from the following changes:

(i) Decrease in the fair value of our holdings in Equus Energy, LLC of $0.8 million, principally due to a combination of decreased production and declining oil and prices;

(ii) Decrease in the fair value of our shareholding in MVC of $0.1 million due to a decrease in the MVC share price during the quarter;

(iii) Increase in fair value of our shareholding in PalletOne, Inc. of $1.2 million due to an overall improvement in the industry sector for packaging companies, as well as continued revenue and earnings growth;

(iii) 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,

(iv) 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.

During the three months ended March 31, 2014, net unrealized depreciation on investments increased $0.07 million, to a net unrealized depreciation of $4.0 million. Such increase in unrealized depreciation is largely the result of a decrease in the fair value of our holdings in OPG of $0.1 million, which was due to a decline in the price of OPG shares.

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

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 three months ended March 31, 2015, we received dividends in the form of additional shares of $0.05 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 three months ended March 31, 2014, we capitalized legal and consulting expenses of $0.7 million relating to our holdings in Spectrum. We also received a semi-annual interest payment of $0.04 million in respect of our holding of €1.2 million [$1.5 million] in OPG notes.

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 25.4% of the net asset value and 55.5% of our investments in portfolio company securities (at fair value) as of March 31, 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 March 31, 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 March 31, 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 34

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: May 14, 2015

EQUUS TOTAL RETURN, INC.

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

Table of Contents 35