EQUUS TOTAL RETURN, INC.
Form 10-Q
May 15, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007

or

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

Commission File Number 0-19509

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**76-0345915** **(I.R.S. Employer Identification No.)**
2727 Allen Parkway, 13th Floor Houston, Texas **(Address of principal executive offices)**	**77019** **(Zip Code)**

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

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

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

Large accelerated filer ¨	**Accelerated filer ¨**	**Non-accelerated filer x**

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

There were 8,216,899 shares of the registrant s common stock, $.001 par value, outstanding, as of May 15, 2007. The net asset value of a share at March 31, 2007 was $11.21.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

MARCH 31, 2007 AND DECEMBER 31, 2006

	2007 (unaudited)	2006
Assets		
Investments in portfolio securities at fair value (cost $39,368,913 and $33,334,824 respectively)	$ 46,488,074	$ 42,626,576
Restricted cash & temporary investments, at cost which approximates fair value	30,275,710	30,278,588
Cash		171,150
Temporary cash investments, at cost which approximates fair value	43,612,480	51,327,938
Accounts receivable	16,371	146,885
Accrued interest and dividends receivable due from portfolio companies	694,151	527,877
Deferred offering costs	677,394	584,265
Escrowed receivables, at fair value	1,510,533	202,980
Total assets	$ 123,274,713	$ 125,866,259
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 180,918	$ 229,535
Bank overdraft	97,912	
Due to adviser	921,973	2,422,061
Borrowing under margin account	29,975,950	29,978,800
Total liabilities	31,176,753	32,630,396
Commitments and contingencies		
Net assets:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares outstanding		
Common stock, $.001 par value, 50,000,000 shares authorized, 8,217,199 and 8,164,249 shares outstanding, respectively	8,217	8,164
Additional paid-in capital	97,839,740	97,385,267
Undistributed net investment losses	(23,718,938)	(22,703,320)
Undistributed net capital gains	10,849,780	9,254,000
Unrealized appreciation of portfolio securities, net	7,119,161	9,291,752
Total net assets	$ 92,097,960	$ 93,235,863
Net assets per share	$ 11.21	$ 11.42

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(Unaudited)

	2007	2006
Investment income:		
Interest income from portfolio securities	$ 616,583	$ 710,582
Dividend income from portfolio securities	61,500	161,016
Interest from temporary cash investments	533,363	409,305
Total investment income	1,211,446	1,280,903
Expenses:		
Management fee	460,495	400,004
Incentive fee	262,714	1,216,028
Directors fees and expenses	88,836	92,651
Professional fees	160,163	103,112
Administrative fees	112,500	112,500
Mailing, printing and other expenses	99,997	24,968
Interest expense	21,677	20,315
Franchise taxes	150	15,025
Total expenses	1,206,532	1,984,603
Net investment (loss) income	4,914	(703,700)
Net realized gain on portfolio securities	1,595,780	27,422,052
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	7,119,161	(12,236,291)
Beginning of period	9,291,752	14,043,262
Net change in unrealized appreciation (depreciation) of portfolio securities	(2,172,591)	(26,279,553)
Net increase (decrease) in net assets resulting from operations	$ (571,897)	$ 438,799
Net increase (decrease) in net assets from operations per share:		
Basic	$ (0.07)	$ 0.06
Diluted	$ (0.07)	$ 0.06
Weighted average shares outstanding, in thousands		
Basic	8,165	7,450
Diluted	8,165	7,450

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(Unaudited)

	2007	2006
Operations:		
Net investment income (loss)	$ 4,914	$ (703,700)
Net realized gain on portfolio securities	1,595,780	27,422,052
Net change in unrealized (depreciation) appreciation of portfolio securities	(2,172,591)	(26,279,553)
Net (decrease) increase in net assets resulting from operations	(571,897)	438,799
Capital share transactions:		
Dividends declared	(1,020,531)	(18,441,480)
Shares issued in dividend	454,525	5,465,555
Decrease in net assets from capital share transactions	(566,006)	(12,975,925)
Decrease in net assets	(1,137,903)	(12,537,126)
Net assets at beginning of period	93,235,863	92,602,338
Net assets at end of period	$ 92,097,960	$ 80,065,212

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(Unaudited)

	2007	2006
Cash flows from operating activities:		
Interest and dividends received	$ 933,027	$ 692,497
Cash paid to adviser, directors, banks and suppliers	(2,624,725)	(822,546)
Escrow receivable	(1,307,553)	
Purchase of portfolio securities	(7,618,963)	(7,964,397)
Proceeds from dispositions of portfolio securities	1,595,780	29,120,575
Principal payments from portfolio securities	1,697,021	33,317
Sales of restricted temporary cash investments	2,878	20,198,334
Net cash (used in) provided by operating activities	(7,322,535)	41,257,780
Cash flows from financing activities:		
Bank overdraft payable	97,912	
Borrowings under margin account	29,975,950	29,947,199
Repayments under margin account	(29,978,800)	(49,945,550)
Dividends paid	(566,006)	(12,975,926)
Deferred offering costs	(93,129)	
Net cash (used in) financing activities	(564,073)	(32,974,277)
Net increase (decrease) in cash and cash equivalents	(7,886,608)	8,283,503
Cash and cash equivalents at beginning of period	51,499,088	25,645,627
Cash and cash equivalents at end of period	$ 43,612,480	$ 33,929,130
Non cash financing activities:		
Shares issued in lieu of cash dividend	$ 454,525	$ 5,465,555

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(Unaudited)

(Continued)

	2007	2006
Reconciliation of increase (decrease) in net assets from operations to net cash provided by operating activities:		
Net increase (decrease) in net assets resulting from operations	$ (571,897)	$ 438,799
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:		
Gain realized on dispositions of portfolio securities, net	(1,595,780)	(27,422,052)
Change in unrealized appreciation (depreciation), net	2,172,591	26,279,553
Increase in accrued interest and dividends receivable due from portfolio companies	(166,274)	(233,255)
Increase in accrued escrow receivable due from portfolio companies	(1,307,553)	
Decrease in accounts receivable	130,514	
Accrued interest or dividends exchanged for portfolio securities	(112,147)	(355,152)
Decrease in accounts payable and accrued liabilities	(48,617)	(3,974)
Increase (decrease) in due to adviser	(1,500,088)	1,166,032
Purchase of portfolio securities	(7,618,963)	(7,964,397)
Proceeds from dispositions of portfolio securities	1,595,780	29,120,575
Principal payments from portfolio securities	1,697,021	33,317
Sales of restricted temporary cash investments	2,878	20,198,334
Net cash (used in) provided by operating activities	$ (7,322,535)	$ 41,257,780

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

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EQUUS TOTAL RETURN, INC.

SUPPLEMENTAL INFORMATION SELECTED PER SHARE DATA AND RATIOS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(Unaudited)

	2007	2006
Investment income	$ 0.15	$ 0.17
Expenses	0.15	0.26
Net investment income	0.00	(0.09)
Realized gain (loss) on sale of portfolio securities, net	0.20	3.68
Increase (decrease) in unrealized appreciation of portfolio securities, net	(0.27)	(3.53)
Increase (decrease) in net assets from operations	(0.07)	0.06
Capital transactions:		
Dividend declared	(0.13)	(2.50)
Dilutive effect of shares issued in common stock dividend	(0.01)	(0.23)
Decrease in net assets from capital transactions	(0.14)	(2.73)
Net decrease in net assets	(0.21)	(2.67)
Net assets at beginning of period	11.42	12.55
Net assets at end of period	$ 11.21	$ 9.88
Weighted average number of shares outstanding during period, in thousands	8,165	7,450
Market value per share at end of period	$ 8.75*	$ 7.75
Selected ratios:		
Ratio of expenses to average net assets	1.30%	2.30%
Ratio of net investment income (loss) to average net assets	0.00%	(0.82)%
Ratio of increase (decrease) in net assets from operations to average net assets	(0.62)%	0.51%
Total return on market price	3.92%*	14.78%

* Adjusted for dividends

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

March 31, 2007

Name and Address of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	% of Each	Cost of Investment	Fair Value
Alenco Window Holdings, LLC 2727 Allen Parkway 13th Floor Houston, TX 77019	Residential Building Products	February 2001(5)	Cash and escrowed receivables	32.35%	$	$ 91,815
The Bradshaw Group 735 North Plano Rd Richardson, TX 75061	Business Products and Services	May 2000	576,828 Class B Shares 12.25% preferred stock 38,750 Class C shares preferred stock 788,649 Class D shares 15% preferred stock 2,218,109 Class E shares 8% preferred stock	18%	$ 1,794,546	$ 200,000
			Warrant to buy 2,229,450 shares of common stock through May 2008		1	
Cedar Lodge Holdings, Inc 2727 Allen Parkway 13th Floor Houston, TX 77019	Real Estate	December 2005(4)	5,000 shares of common stock	100%	$ 500,000	$ 666,027
			18-19.8% promissory note(1)			423,497
ConGlobal Industries Holding, Inc. 2777 Allen Parkway Suite 850 Houston, TX 77019	Shipping Products and Services	February 1997	24,397,303 shares of common stock	29%	$ 1,370,495	$
			Promissory note(2)		3,172,155	1,422,534
			Member interest in CCI-ANI Finance, LLC(2)		2,655,866	1,191,007
			Member interest (66.7%) in JL Madre, LLC(1)		1,000,000	1,034,905
			Member interest (28.3%) in JL Madre(1) Equipment, LLC		69,210	126,341
Creekstone Florida Holdings, LLC 2727 Allen Parkway	Real Estate	December 2005(4)	17-19.8% subordinated promissory note(1)	100%	$ 4,207,531	$ 4,207,531

13th Floor Houston, TX 77019						
The Drilltec Corporation 10875 Kempwood Drive, Suite 2 Houston, TX 77043	Industrial Products and Services	August 1998	Prime+9.75% promissory note	63%	$ 1,000,000	$ 4,484,940
Equus Media Development, LLC 2727 Allen Parkway 13th Floor Houston, TX 77019	Media	January 2007(4)	Member Interest	100%	$ 5,000,000	$ 5,000,000
Equus Media Finance Company, LLC 2727 Allen Parkway 13th Floor Houston, TX 77019	Media	March 2007(4)	Member Interest	100%	$ 100,000	$ 100,000

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

March 31, 2007

Name and Address of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	% of Each	Cost of Investment	Fair Value
HealthSpac 2301 Rosecrans Ave Suite 3180 El Segundo, CA 90245	Healthcare	December 2006(4)	Member interest (40%)	40%	$ 190,000	$ 190,000
PalletOne, Inc. 1470 U.S. Hwy 17 South Bartow, FL 33830	Shipping Products and Services	October 2001	350,000 shares of common stock	21%	$ 350,000	$ 3,500,000
Riptide Entertainment, LLC 25 S.E. 2nd Avenue Suite 1240 Miami, FL 33131	Leisure and Entertainment	December 2005(4)	Member interest (64.67%)	65%	$ 64,667	$ 64,667
			8% promissory note		500,000	500,000
			8% promissory note		360,000	360,000
			8% promissory note		200,000	200,000
			8% promissory note- Dick Clark s American Bandstand		300,000	300,000
RP&C International Investments LLC 630 Fifth Avenue 20th Floor New York, NY 10111	Healthcare	September 2006(4)	350,000 shares of common stock	17%	$ 3,304,549	$ 3,304,549
Sovereign Business Forms, Inc. 10500 Richmond Avenue Suite 210 Houston, TX 77042-5018	Business Products and Services	August 1996	27,312 shares of preferred stock(1)(2)	31%	$ 2,792,700	$ 2,792,700
			15% promissory notes(1)(2)		4,937,622	4,937,622
			Warrant to buy 551,894 shares of common stock at			197,053

			$1 per share through Aug 2007			
			Warrant to buy 25,070 shares of common stock at $1.25 per share through Oct 2007			5,313
			Warrant to buy 273,450 shares of common stock at $1 per share through Oct 2009			97,634
Spectrum Management, LLC 2545 Tarpley Road Carrollton, TX 75006	Business Products and Services	December 1999	285,000 units of Class A equity interest	79%	$ 2,850,000	$ 9,400,000
			16% subordinated promissorynote(1)(2)		1,303,698	1,303,698
			12.75% subordinated promissory note(2)		386,241	386,241

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

March 31, 2007

Name and Address of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	% of Each	Cost of Investment	Fair Value
Turf Grass Holdings, Inc. 2012 Avenue G Richmond, TX 77469	Residential Building Products	May 1999	1,000 shares of common stock	100%	$ 959,632	$ 0
TOTAL					**$ 39,368,913**	**$ 46,488,074**

(1) Income-producing. All other securities are considered non-income producing.
(2) Income on these securities is paid-in-kind by the issuance of additional securities or through accretion of original issue discount.
(3) See Business Valuation.
(4) Investments subsequent to June 30, 2005 were selected, and are managed, by the Adviser.
(5) Investments disposed of prior to March 31, 2007. Included in this table due to assets related to these investments in the form of cash, escrowed assets, options or other equity interests retained by the Fund as of March 31, 2007.

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

MARCH 31, 2007

(Unaudited)

(Continued)

Substantially all of the Fund s portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933. The Fund negotiates certain aspects of the method and timing of the disposition of the Fund s investment in each portfolio company, including registration rights and related costs.

As defined in the Investment Company Act of 1940, during the three months ended March 31, 2007, the Fund was considered to have a controlling interest in Alenco Window Holdings, LLC, ConGlobal Industries, Inc., The Drilltec Corporation, Equus Media Development Company, LLC, Equus Media Finance Company, LLC, HealthSPAC, LLC, PalletOne, Inc., Sovereign Business Forms, Inc., Spectrum Management, LLC, and Riptide Entertainment, LLC.

Income was earned in the amount of $605,244 and $871,598 for the three months March 31, 2007 and 2006, respectively, on portfolio securities of companies in which the Fund has a controlling interest. Income was earned in the amount of $72,839 and $0 for the three months March 31, 2007 and 2006, respectively, on portfolio securities of a company that is an affiliate of the Fund, but is not controlled by the Fund.

As defined in the Investment Company Act of 1940, all of the Fund s investments are in eligible portfolio companies. The Fund provides significant managerial assistance to all of the portfolio companies in which it has invested.

The investments in portfolio securities held by the Fund are becoming more geographically diversified. All of the Fund s portfolio companies (except ConGlobal Industries, Inc., PalletOne, Inc., Riptide Entertainment LLC, RP&C International Investments LLC and HealthSPAC, LLC) are headquartered in Texas, although several have significant operations in other states.

The Fund s investments in portfolio securities consist of the following types of securities at March 31, 2007:

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Common stock	$ 3,180,127	$ 4,166,027	4.5%
Secured and subordinated debt	16,159,716	18,318,532	19.9%
Preferred stock	4,587,246	2,992,700	3.2%
Limited liability company investments	15,441,823	20,710,815	22.5%
Warrants	1	300,000	0.3%
Total	$ 39,368,913	$ 46,488,074	50.5%

Three notes receivable included in secured and subordinated debt with an estimated fair value of $8,050,094 provide that interest is paid in kind or that the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. In addition, cash payments of interest are being made currently on notes aggregating $10,268,437 in fair value.

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

MARCH 31, 2007

(Unaudited)

(Continued)

The following is a summary by industry of the Fund s investments in portfolio securities as of March 31, 2007:

Industry	Fair Value	Fair Value as Percentage of Net Assets
Business Products and Services	$ 19,320,261	21.0%
Healthcare	3,494,549	3.8%
Industrial Products and Services	4,484,940	4.9%
Leisure and Entertainment	1,424,667	1.5%
Media	5,100,000	5.5%
Real Estate	5,297,055	5.8%
Residential Building Products	91,815	0.1%
Shipping Products and Services	7,274,787	7.9%
Total	$ 46,488,074	50.5%

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EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007 AND 2006

(Unaudited)

(1) Organization and Business Purpose

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

The Fund seeks to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. The Fund seeks to invest primarily in companies which intend to grow either by acquiring other businesses, including leveraged buyouts, or internally. The Fund may also invest in recapitalizations of existing businesses or special situations from time to time. The Fund s investments in portfolio companies consist principally of equity securities such as common and preferred stock, but also include other equity-oriented securities such as debt convertible into common or preferred stock or debt combined with warrants, options or other rights to acquire common or preferred stock. The Fund elected to be treated as a business development company under the Investment Company Act of 1940 (Investment Company Act). For tax purposes, the Fund has elected to be treated as a regulated investment company (RIC). With shareholder approval on June 30, 2005, the Fund entered into an investment advisory agreement with Moore Clayton Capital Advisors, Inc. (the Adviser). Prior to this agreement, the Fund s adviser was Equus Capital Management Corporation.

The Fund elected to retain the Adviser in part to provide the Fund with enhanced investment opportunities in both the United States and internationally. Effective August 11, 2006, Equus II Incorporated (EQS) began to employ a total return investment style. The total return style combines both growth and income investments and is intended to strike a balance between the potential for gain and the risk of loss. In the growth category, the Fund is a growth-at-reasonable-price investor. The Fund invests primarily in privately owned companies and is open to virtually any potential growth investment in the privately owned arena. However, the Fund s primary aim is to identify and acquire only those equity securities that meet its criteria for selling at reasonable prices. The income investments made by the Fund consist principally of purchasing debt financing with the objective of generating regular interest income back to the fund as well as long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

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

(2) Liquidity and Financing Arrangements

Liquidity and Revolving Line of Credit As of March 31, 2007, the Fund had cash and unrestricted temporary investments of $43,612,480. The Fund had $46,488,074 of its total assets of $123,274,713 invested in portfolio securities. Restricted assets totaled $30,275,710, of which $29,975,950 was invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund s pass-through tax treatment and $299,760 represented a required 1% brokerage margin deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm April 2, 2007.

On August 22, 2006, the Fund entered into a $10 million revolving line of credit agreement (the Credit Facility) with Regions Bank. The initial term of the Credit Facility is through December 31, 2007. The Fund can borrow up to $10 million under the Credit Facility, subject to a borrowing base equal to 20% of the value of the Fund s eligible portfolio assets. The Credit Facility bears a floating interest rate of either LIBOR plus 2.5% or the prime rate, at the Fund s discretion. The Credit Facility is secured by substantially all of the Fund s portfolio assets and securities and contains certain covenants, including, but not limited to, certain limitations on indebtedness and liens. A facility fee of .25% per annum on the unused portion of the line of credit is payable in arrears, accordingly $6,250 from facility fees has been accrued as interest expense as of March 31, 2007. The Fund was in compliance with its covenants as of March 31, 2007.

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On January 11, 2007, the Fund invested an additional $2.0 million in RP&C International Investments LLC.

On January 30, 2007, the Fund invested $5.0 million in Equus Media Development Company, LLC, a 100% wholly owned subsidiary that will fund the development of certain literary properties as the basis for feature-length theatrical motion pictures to be produced by Arnold Kopelson of Kopelson Entertainment Company.

On January 31, 2007, the Fund s shareholders approved an amendment to the Fund s Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 50,000,000 shares.

On February 21, 2007, the Fund invested $360,000 as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. This investment is expected to fund the Ripley s Believe It or Not museum franchise location at Times Square in New York, New York.

On February 16, 2007, the Fund announced the declaration of a first quarter dividend of $0.125 per share in accordance with its managed distribution policy. This dividend was paid on March 30, 2007 to shareholders of record as of February 26, 2007. The dividend was paid in shares of common stock or in cash by specific election of the shareholders made by March 22, 2007. The classification of this dividend as ordinary income, capital gain and return of capital will not be known until December 31, 2007, since any purchase or sale of a portfolio company during the remainder of the year will affect the classification.

On February 27, 2007, the Fund received proceeds of $106,000 from the escrow account balance of Doane PetCare Enterprises, Inc., which it sold in October 2005. The Fund recorded an escrow receivable and realized gain of $106,000 as of December 31, 2006.

On March 12, 2007, the Fund invested $150,000 in HealthSPAC, LLC. This investment represents the first capital call, where there is a total commitment of $5,000,000. The Fund had previously invested $40,000 to acquire a 40% member s interest. After this $150,000 investment there is a remaining commitment of $4,810,000 on HealthSPAC.

On March 22, 2007, the Fund s shareholders approved a proposal authorizing the Fund to offer and sell, or to issue rights to acquire shares of its common stock at a price below the net asset value of such stock.

For the period from January 1 through March 23, 2007, the Fund received approximately $2 million in principal and interest on its promissory note with Cedar Lodge Holdings, Inc. based on condominium sales activity by the portfolio company.

On March 29, 2007, the Fund paid first quarter cash dividends in the amount of approximately $566,006, in accordance with the quarterly dividend policy.

Under certain circumstances, the Fund may be called on to make follow-on investments in certain portfolio companies. If the Fund does not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, the Fund s equity interest in the estimated fair value of the portfolio company could be reduced. As of March 31, 2007 the Fund had total commitments of $12,605,451 with $7,795,451 and $4,810,000 committed to RP&C and HealthSPAC respectively, which are both in the healthcare sector.

During the three months ended March 31, 2007 and 2006, the amount of interest and loan fees paid in cash was $30,092 and $32,356, respectively.

RIC Borrowings, Restricted Cash and Temporary Investments During the three months ended March 31,2007 and March 31, 2006, the Fund borrowed sufficient funds to maintain the Fund s RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on the Fund s net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be material to us and the Fund s stockholders.

As of March 31, 2007, the Fund borrowed $29,975,950 to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of $ 30,275,710. The U.S. Treasury bills were sold and the total amount borrowed was repaid on April 2, 2007.

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During December 2006, the Fund borrowed $29,978,800 to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of $30,278,588. The U.S. Treasury bills were sold and the total amount borrowed was repaid on January 4, 2007.

(3) Significant Accounting Policies

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

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

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

Publicly-traded portfolio securities Investments in companies whose securities are publicly traded are valued at their quoted market price at the close of business on the valuation date, less a discount to reflect the estimated effects of restrictions on the sale of such securities (Valuation Discount), if applicable.

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

Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Adviser, subject to the approval of the Board of Directors. Appraisal valuations are based upon such factors as a portfolio company s earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company s current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value.

Most of the Fund s common equity investments are appraised at a multiple of free cash flow generated by the portfolio company in its most recent fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock. Projections of current year free cash flow may be utilized and adjustments for non-recurring items are considered. Multiples utilized are estimated based on the Adviser s experience in the private company marketplace, and are necessarily subjective in nature.

From time to time, portfolio companies are in default of certain covenants in their loan agreements. When the Adviser has a reasonable belief that the portfolio company will be able to restructure the loan agreements to adjust for any defaults, the portfolio company s securities continue to be valued assuming that the company is a going concern. In the event a portfolio company cannot generate adequate cash flow to meet the principal and payments on such indebtedness or is not successful in refinancing the debt upon its maturity, the Fund s investment could be reduced or eliminated through foreclosure on the portfolio company s assets or the portfolio company s reorganization or bankruptcy.

The Fund may also use, when available, third-party transactions in a portfolio company s securities as the basis of valuation (the private market method). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

The fair values of debt securities, which are generally held to maturity, are determined on the basis of the terms of the debt securities and the financial condition of the issuer. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $46,488,074 (including no publicly traded securities) and $42,626,576 (including no publicly

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traded securities) as of March 31, 2007 and December 31, 2006, respectively, the Fund s estimate of fair value may materially differ from the value that would have been used had a ready market existed for the securities. Appraised values do not reflect brokers fees or other normal selling costs which might become payable on disposition of such investments.

On a daily basis, the Fund adjusts its net asset value for the changes in the value of its publicly held securities and material changes in the value of its private securities and reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including Barron s and The Wall Street Journal.

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

Escrowed Receivables, at Estimated Fair Value In April of 2007, the Fund received $1,413,849 from Champion Windows Holdings, Inc. (Champion Windows). The Fund recorded the amount as an escrow receivable as of March 31, 2007. This Champion Window payment is expected to be the final payment from escrow for the sale of Champion Windows, which was sold in January 2006.

In May 2004, the Fund sold investments in Alenco Holding Corporation. A portion of the proceeds from the sale was placed in a cash escrow account to secure the representations and warranties made to the respective purchasers. As of March 31, 2007, the amount receivable from the Alenco escrow is valued at $96,684. The Fund is not aware of any claims against the escrow that have been made as of March 31, 2007 and is anticipating a final payment from the Alenco Holding Corporation escrow account by May 2007.

Cash Flows For purposes of the Statements of Cash Flows, the Fund considers all highly liquid temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. The Fund includes its investing activities within cash flows from operations. The Fund excludes Restricted Cash & Temporary Investments used for purposes of complying with RIC requirements from cash equivalents.

Federal Income Taxes The Fund intends to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gains) which is distributed to stockholders. Therefore, no provision for federal income taxes is recorded in the financial statements. The Fund borrows money from time to time to maintain its tax status under the Internal Revenue Code as a RIC. See Note 2 for further discussion of the Fund s RIC borrowings.

Recent Accounting Pronouncements In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issues for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The Fund believes that the adoption of SFAS No. 157 will not have a material impact on its financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 requires that public companies utilize a dual-approach to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. SAB 108 is effective for fiscal years ending after November 15, 2006. The Fund adopted SAB 108 on December 31, 2006, and there was no impact on its consolidated financial statements.

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(4) Related Party Transactions

Moore Clayton Capital Advisors, Inc. (MCCA) was formed in February 2005 for the purpose of managing the Fund. MCC Global N.V., the parent company of MCCA either directly or indirectly has a significant ownership interest in the Fund and, additionally, has one common director. MCCA has no direct ownership in the Fund and has two common directors with the Fund. MCCA acquired the outstanding stock of the two entities which owned the previous adviser, Equus Capital Management Corporation. Those two entities were individually owned by a current officer of the Fund and a previous officer of the Fund who resigned with the change to the new adviser, MCCA. See Footnote 5 Management Agreements for discussion of fees paid by the Fund to the Adviser and Administrator.

The Fund entered into a consulting agreement (the Walsh Agreement) with Walsh Advisors, LLC. The principal of Walsh Advisors is James M. Walsh, a former director of the Fund. Pursuant to the Walsh Agreement, Walsh Advisors serves as a financial advisor to the Fund in connection with the future growth of the Fund. For the services provided under the Walsh Agreement, the Fund has paid Walsh Advisors a fee of $75,000 for services rendered from the period of January 15, 2007 through March 14, 2007.

The Board of the Fund, including the independent directors, approved the Walsh Agreement. Among other things, the directors considered, evaluated and determined whether: (a) the Walsh Agreement is in the best interest of the Fund and its stockholders; and (b) the fees for such services are fair and reasonable in light of the usual and customary charges made by others for services of the same nature and quality.

(5) Management Agreements

The Fund entered into an investment advisory agreement dated June 30, 2005 (the Advisory Agreement) with the Adviser. Pursuant to the Advisory Agreement, the Adviser performs certain investment advisory services that are necessary for the operation of the Fund. The Adviser receives a base advisory fee at an annual rate of 2% of the net assets of the Fund, paid quarterly in arrears, as well as incentive fees in the following amounts: (i) 20% of the excess, if any, of the Fund s net investment income for a quarter that exceeds a quarterly hurdle rate equal to 2% (8% annualized) of the Fund s net assets, and (ii) 20% of the Fund s net realized capital gain less unrealized capital depreciation paid on an annual basis ($262,714 (estimated) incentive fee in 2007). The advisory fees that the Fund pays represent the Adviser s primary source of revenue. The Adviser is a wholly-owned subsidiary of MCC Global N.V., an international private equity investment and advisory firm.

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

The Fund has entered into an administration agreement dated June 30, 2005 (Administration Agreement) with Equus Capital Administration Company (the Administrator). The Fund reimburses the Administrator for the costs and expenses incurred by the Administrator in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements do not exceed $450,000 per year.

The Administration Agreement will continue in effect for two years (through June 30, 2007), and from year-to-year thereafter, provided such continuance is approved at least annually by the Fund s Board of Directors, including a majority of the Independent Directors. The Administration Agreement may be terminated at any time, without the payment of any penalty, by the Board of Directors, or by the Administrator, upon 60 days written notice to the other party, and would automatically terminate in the event of its assignment (as defined in the 1940 Act).

As compensation for services to the Fund, each Independent Director receives an annual fee of $20,000 paid quarterly in arrears, a fee of $2,000 for each meeting of the Board of Directors attended in person, a fee of $1,000 for participation in each telephonic meeting of the Board and a fee of $1,000 for each committee meeting attended, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. A quarterly fee of $2,500 is paid to the Chairman of the Independent Directors and the Chairman of the Audit Committee. Certain officers of the Fund serve as directors of the Fund s portfolio companies, and may receive and retain fees, including non-employee director stock options, from such portfolio companies in consideration for such service.

(6) Federal Income Tax Matters

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

The Fund was not required to make a distribution of ordinary income for 2006 under income tax regulations. For the year ended December 31, 2006, the Fund had net investment loss for book purposes of approximately ($102,000) and ($86,000) for tax purposes. During 2006, the Fund had a net capital gain for book purposes of approximately $19.0 million and a net capital gain for tax purposes of $21.4 million. As of December 31, 2006, the Fund has no capital loss carry-forward as it was fully utilized to offset capital gains in 2006. The aggregate cost of investments for federal income tax purposes as of December 31, 2006 was $30.9 million. Such investments had unrealized appreciation of approximately $12.7 million and unrealized depreciation of $3.4 million for book purposes, or net unrealized appreciation of approximately $9.3 million. They had unrealized appreciation of approximately $16.2 million and unrealized depreciation of approximately $4.2 million for tax purposes, or net unrealized appreciation of approximately $12.0 million as of December 31, 2006.

The Fund adopted FASB Interpretation No. 48 entitled Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, referred to as FIN 48, as of January 1, 2007. FIN 48 clarifies the accounting for uncertain tax positions that may have been taken by an entity. Specifically, FIN 48 prescribes a more-likely-than-not recognition threshold to measure a tax position taken or expected to be taken in a tax return through a two-step process: (1) determining whether it is more likely than not that a tax position will be sustained upon examination by taxing authorities, after all appeals, based upon the technical merits of the position; and (2) measuring to determine the amount of benefit/expense to recognize in the financial statements, assuming taxing authorities have all relevant information concerning the issue. The tax position is measured at the largest amount of benefit/expense that is greater than 50 percent likely of being realized upon ultimate settlement. This pronouncement also specifies how to present a liability for unrecognized tax benefits in a classified balance sheet, but does not change the classification requirements for deferred taxes. Under FIN 48, if a tax position previously failed the more-likely-than-not recognition threshold, it should be recognized in the first subsequent financial reporting period in which the threshold is met. Similarly, a position that no longer meets this recognition threshold should no longer be recognized in the first financial reporting period that the threshold is no longer met.

The Fund is a flow through, non-tax paying entity; further, the Fund s net operating loss carry-forwards have been exhausted. Based upon an examination of the Fund s tax position, the Fund determined that the aggregate exposure under FIN 48 did not have a material impact on its financial statements at January 1, 2007 or March 31, 2007. Therefore, the Fund has not recorded an adjustment to its financial statements related to the adoption of FIN 48. The Fund will continue to evaluate its tax positions in accordance with FIN 48, and recognize any future impact under FIN 48 as a charge to income in the applicable period in accordance with the standard.

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

(7) Dividends

On October 23, 2006 the Fund announced a managed distribution policy for the Fund to pay quarterly dividends at an annual rate of a minimum of $0.50 per share annually. In accordance with the new policy, the Fund announced the declaration of a $0.125 dividend payable on March 30, 2007, to shareholders of record as of the close of business on February 26, 2007. The Fund paid $566,006 in cash and issued 52,650 additional shares of common stock at $8.633 per share on March 30, 2007, in payment of such dividend. The classification of the dividend will not be known as to whether it is an ordinary income, capital gain, or return of capital dividend until December 31, 2007.

On February 2, 2006, the Fund declared dividends of $18,441,480 ($2.50 per share). The Fund paid $12,975,926 in cash and issued 729,773 additional shares of common stock at $7.489 per share on March 23, 2006, in payment of such dividend.

(8) Portfolio Securities

During the three months ended March 31, 2007, the Fund invested $5,100,000 in two new companies and made follow-on investments of $2,631,110 in three follow-on investments, including $112,147 in the form of interest and dividends paid in kind or original issue discount/premium amortization. In addition, the Fund realized a net capital gain of $1,595,780 (significant transactions include the escrow receivable from the sale of Champion which generated a capital gain of 1,413,849 during the three months ended March 31, 2007).

During the three months ended March 31, 2006, the Fund invested $8,319,549 in six follow-on investments in six companies, including $355,152 in the form of interest and dividends paid in kind or original issue discount amortization. In addition, the Fund realized a net capital gain of $27,422,052 (the sale of Champion generated a net capital gain of $26,626,934) during the three months ended March 31, 2006.

(9) Former Stock Option Plan

Prior to June 30, 2005, an Equus II Incorporated 1997 Stock Incentive Plan had authorized the Fund to issue options to the directors and officers of the Fund in an aggregate amount of up to 20% of the outstanding shares of common stock of the Fund. The Board of Directors cancelled the Stock Incentive Plan as of June 30, 2005.

(10) Subsequent Events

On April 2, 2007, the Fund sold U.S. Treasury bills for $30,000,000 and repaid the margin loan.

On April 2, 2007, the Fund received a final escrow payment of $1,413,849 from the sale of Champion Window Holdings, Inc. This amount was included in escrow receivable at March 31, 2007.

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On April 3, 2007, the Fund made an investment of $2,000,000 for 13% promissory note with a maturity date of August 3, 2007 with Nickent Golf Equipment, for working capital for development and growth opportunities.

On April 14, 2007, the Fund made a follow-on investment in Riptide Entertainment, LLC of $250,000 for an 8% promissory note with a maturity date of April 12, 2012. On May 2, 2007, the Fund made another follow-on investment of $225,000 for an 8% promissory note with a maturity date of May 2, 2012.

On May 2, 2007, the Fund received $4,484,940 for the sale of The Drilltec Corporation (Drilltec).

For the period from April 1 through May 14, 2007, the Fund has received approximately $568,000 in interest from Cedar Lodge Holdings, Inc., based on condominium sales activity.

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

Overview

Equus Total Return, Inc. is a business development company which invests in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. The Fund made two new investment other than follow-on investments during the three months ended March 31, 2007 and made no new investments other than follow-on investments during the three months ended March 31, 2006.

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

Most of the Fund s portfolio companies utilize leverage, and the leverage magnifies the return on its investments. For example, if a portfolio company has a total enterprise value of $10 million and $7.5 million in funded indebtedness, its equity is valued at $2.5 million. If the enterprise value increases or decreases by 20%, to $12 million or $8 million, respectively, the value of the equity increases or decreases by 80%, to $4.5 million or $0.5 million, respectively. This disproportionate increase or decrease adds a level of volatility to the Fund s equity-oriented portfolio securities.

The Fund derives its cash flow from interest and dividends received and sales of securities from its investment portfolio. The Fund pays certain advisory fees to the Adviser, administrative fees to the Administrator and interest expense on its existing debt. The Fund also spends its cash on new investments, or follow-on investments which may be required by certain portfolio companies. Because the investments are illiquid, the Fund utilized leverage to provide the required funds, and the leverage was then repaid from the sale of portfolio securities. The Fund has maintained substantial amounts of cash and cash equivalents since May 2004.

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

Significant Accounting Policies

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

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

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

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Publicly-traded portfolio securities Investments in companies whose securities are publicly traded are valued at their quoted market price at the close of business on the valuation date, less a discount to reflect the estimated effects of restrictions on the sale of such securities (Valuation Discount), if applicable.

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

Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Adviser, subject to the approval of the Board of Directors. Appraisal valuations are based upon such factors as a portfolio company s earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company s current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value.

Most of the Fund s common equity investments are appraised at a multiple of free cash flow generated by the portfolio company in its most recent fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock. Projections of current year free cash flow may be utilized and adjustments for non-recurring items are considered. Multiples utilized are estimated based on the Adviser s experience in the private company marketplace, and are necessarily subjective in nature.

From time to time, portfolio companies are in default of certain covenants in their loan agreements. When the Adviser has a reasonable belief that the portfolio company will be able to restructure the loan agreements to adjust for any defaults, the portfolio company s securities continue to be valued assuming that the company is a going concern. In the event a portfolio company cannot generate adequate cash flow to meet the principal and payments on such indebtedness or is not successful in refinancing the debt upon its maturity, the Fund s investment could be reduced or eliminated through foreclosure on the portfolio company s assets or the portfolio company s reorganization or bankruptcy.

The Fund may also use, when available, third-party transactions in a portfolio company s securities as the basis of valuation (the private market method). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

The fair values of debt securities, which are generally held to maturity, are determined on the basis of the terms of the debt securities and the financial condition of the issuer. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $46,488,074 (including no publicly traded securities) and $42,626,576 (including no publicly traded securities) as of March 31, 2007 and 2006, respectively, the Fund s estimate of fair value may materially differ from the value that would have been used had a ready market existed for the securities. Appraised values do not reflect brokers fees or other normal selling costs which might become payable on disposition of such investments.

On a daily basis, the Fund adjusts its net asset value for the changes in the value of its publicly held securities and material changes in the value of its private securities and reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including Barron s and The Wall Street Journal.

Federal Income Taxes The Fund intends to comply with the requirements of the 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. For the year ended December 31, 2006, the Fund had net investment loss for book purposes of approximately ($102,000) and ($86,000) for tax purposes. The Fund may borrow money from time to time to maintain its tax status under the Internal Revenue Code as a regulated investment company (RIC).

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issues for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The Fund believes that the adoption of SFAS No. 157 will not have a material impact on its financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 requires that public companies utilize a dual-approach to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. SAB 108 is effective for fiscal years ending after November 15, 2006. The Fund adopted SAB 108 on December 31, 2006, and there was no impact on its consolidated financial statements.

Liquidity and Capital Resources

As March 31, 2007, the Fund had cash and unrestricted temporary investments of $43,612,480. The Fund had $46,488,074 of its total assets of $123,274,713 invested in portfolio securities. Restricted assets totaled $30,275,710, of which $29,975,950 was invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund s pass-through tax treatment and $299,760 represented a required 1% brokerage margin deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm April 2, 2007.

On January 11, 2007, the Fund invested an additional $2.0 million in RP&C International Investments LLC.

On January 30, 2007, the Fund invested $5.0 million in Equus Media Development Company, LLC, a 100% wholly owned subsidiary that will fund the development of certain literary properties as the basis for feature-length theatrical motion pictures to be produced by Arnold Kopelson of Kopelson Entertainment Company.

On January 31, 2007, the Fund s shareholders approved an amendment to the Fund s Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 50,000,000 shares.

On February 16, 2007, the Fund invested $360,000 as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. This investment is expected to fund the Ripley s Believe It or Not museum franchise location at Times Square in New York, New York.

On February 16, 2007, the Fund announced the declaration of a first quarter dividend of $0.125 per share in accordance with its managed distribution policy. This dividend is payable on March 30, 2007 to shareholders of record as of February 26, 2007. The dividend will be payable in shares of common stock or in cash by specific election of the shareholders, and such election must be made by March 22, 2007. The classification of this dividend as between ordinary income, capital gain and return of capital will not be known until December 31, 2007, since any purchase or sale of a portfolio company during the remainder of the year will affect the classification.

On February 27, 2007, the Fund received proceeds of $106,000 from the escrow account balance of Doane PetCare Enterprises, Inc., which it sold in October 2005. The Fund recorded an escrow receivable and realized gain of $106,000 as of December 31, 2006.

On March 12, 2007, the Fund invested $150,000 in HealthSPAC, LLC. This investment represents the first capital call, where there is a total commitment of $5,000,000. The Fund had previously invested $40,000 to acquire a 40% member s interest. After this $150,000 investment there is a remaining commitment of $4,810,000 on HealthSPAC.

On March 22, 2007, the Fund s shareholders approved a proposal authorizing the Fund to offer and sell, or to issue rights to acquire shares of its common stock at a price below the net asset value of such stock.

For the period from January 1 through March 23, 2007, the Fund received approximately $2 million in principal and interest on its promissory note with Cedar Lodge Holdings, Inc. based on condominium sales activity by the portfolio company.

Under certain circumstances, the Fund may be called on to make follow-on investments in certain portfolio companies. If the Fund does not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, the Fund s equity interest in the estimated fair value of the portfolio company could be reduced. As of March 31, 2007 the Fund had total commitments of $12,605,451 with $7,795,451 and $4,810,000 committed to R,P&C and HealthSPAC respectively, which are both in the healthcare sector.

During the three months ended March 31, 2007 and 2006, the amount of interest and loan fees paid in cash was $30,092 and $32,356, respectively. .

Net cash provided by (used in) operating activities was ($7,322,535) and $41,257,780 for the three months ended March 31, 2007 and 2006, respectively. Approximately $18.3 million in estimated value of the Fund s investments are in the form of notes receivable from portfolio companies. However, only two of the portfolio companies are currently paying cash interest to us in accordance with their respective notes receivable, which aggregate $4,423,497 in fair value. Certain of the promissory notes provide that interest may be paid in kind or that the original issue discount may be accreted over the life of the notes, by adding such amounts to the principal of the notes.

Because of the nature and size of the portfolio investments, the Fund may periodically borrow funds to make qualifying investments to maintain its tax status as a RIC. During the three months ended March 31, 2007 and 2006, the Fund borrowed such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on its net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends.

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

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

Results of Operations

Investment Income and Expense

Net investment income (loss) after all expenses was $4,914 and (703,700) for the three months ended March 31, 2007 and 2006, respectively. The net investment income generated at March 31, 2007 compared to net investment losses in 2006, is due primarily to the incentive fee expense accrual of $1,216,028 at March 31, 2006, compared to an incentive fee of $262,714 at March 31, 2007, due to the gain on the sale of Champion Windows in January 2006. Total income from portfolio securities was $678,083 and $871,598 for the three months ended March 31, 2007 and 2006, respectively.

Interest from temporary cash investments increased from $409,305 to $533,363 for the three months ended March 31, 2007 and 2006, respectively. The cash in temporary investments (excluding the margin account) increased $9,683,350 to $43,612,480 during the twelve months ended March 31, 2007. These increases are primarily due to the increase in cash generated from the sale of Champion Windows.

With the change in adviser and discontinuation of the stock option plan, a new incentive fee was initiated on June 30, 2005. The incentive fees is calculated as follows: (i) 20% of the excess, if any, of the Fund s net investment income for a quarter that exceeds a quarterly hurdle rate equal to 2% (8% annualized) of the Fund s net assets, and (ii) 20% of the Fund s net realized capital gain less unrealized capital depreciation paid on an annual basis. The proceeds of any sale are compared to the fair market valuation of the Fund s portfolio companies at March 31, 2005. The estimated expenses for incentive fees for the three months ended March 31, 2007 are $262,714. The estimated incentive fee expenses for the three months ended March 31, 2006 are $1,216,028 based on capital gains generated by the sale of Champion Windows.

Professional fees increased by $57,051 for the three months ended March 31, 2007 and 2006. These first quarter increases are due primarily to consulting fees incurred in connection with the future growth of the Fund.

Administrative fees were unchanged for the three months ended March 31, 2007 and 2006, respectively. The Fund reimburses the Administrator, ECAC, for the costs and expenses incurred in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements do not exceed $450,000 per year. The administrator receives $112,500 per quarter.

Realized Gains and Losses on Sales of Portfolio Securities

During the three months ended March 31, 2007, the Fund realized net capital gains of $1,595,780. The Fund increased the value of the escrow receivable for Champion Windows realizing a capital gain of $1,413,849. In addition, the Fund had other capital gains of $181,991.

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Net unrealized appreciation on investments decreased by $2,172,591 during the three months ended March 31, 2007, from a net unrealized appreciation of $9,291,752 to a net unrealized appreciation of $7,119,161. Such decrease in appreciation resulted primarily from decrease in estimated fair market value of ConGlobal Industries Holding, Inc., resulting from a decline in operations for the period. The decrease was partially offset by the increase in fair market value of Drilltec, resulting from a pending sale.

Dividends

On October 23, 2006 the Fund announced a managed distribution policy for the Fund to pay quarterly dividends at an annual rate of a minimum of $0.50 per share annually. In accordance with the new policy, the Fund also announced the declaration of a $0.125 dividend payable on March 30, 2007, to shareholders of record as of the close of business on

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February 26, 2007. The Fund paid $566,006 in cash and issued 52,650 additional shares of common stock at $8.633 per share on March 30, 2007, in payment of such dividend. The classification of the dividend will not be known as to whether it is an ordinary income, capital gain, or return of capital dividend until December 31, 2007.

On February 2, 2006, the Fund declared dividends of $18,441,480 ($2.50 per share). The Fund paid $12,975,926 in cash and issued 729,773 additional shares of common stock at $7.489 per share on March 23, 2006, in payment of such dividend.

Portfolio Investments

During the three months ended March 31, 2007, the Fund invested $5,100,000 in two new companies and made follow-on investments of $2,631,100 in three follow-on investments, including $112,147 in the form of interest and dividends paid in kind or original issue discount/premium amortization. In addition, the Fund realized a net capital gain of $1,595,780 (significant transactions include the escrow receivable from the sale of Champion which generated a capital gain of $1,413,849 during the three months ended March 31, 2007.

For the three months ended March 31, 2007, the Fund received an additional 615 shares amounting to $61,500 of preferred stock of Sovereign Business Forms, Inc. (Sovereign) in dividends.

On January 11, 2007, the Fund invested an additional $2.0 million in RP&C International Investments LLC.

On January 30, 2007, the Fund invested $5.0 million in Equus Media Development Company, LLC, a 100% wholly owned subsidiary that will fund the development of certain literary properties as the basis for feature-length theatrical motion pictures to be produced by Arnold Kopelson of Kopelson Entertainment Company.

On January 31, 2007, the Fund s shareholders approved an amendment to the Fund s Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 50,000,000 shares.

On February 16, 2007, the Fund invested $360,000 as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. This investment is expected to fund the Ripley s Believe It or Not museum franchise location at Times Square in New York, New York.

On February 16, 2007, the Fund announced the declaration of a first quarter dividend of $0.125 per share in accordance with its managed distribution policy. This dividend was paid on March 30, 2007 to shareholders of record as of February 26, 2007. The dividend was paid in shares of common stock or in cash by specific election of the shareholders made by March 22, 2007. The classification of this dividend as ordinary income, capital gain and return of capital will not be known until December 31, 2007, since any purchase or sale of a portfolio company during the remainder of the year will affect the classification.

On February 27, 2007, the Fund received proceeds of $106,000 from the escrow account balance of Doane PetCare Enterprises, Inc., which it sold in October 2005. The Fund recorded an escrow receivable and realized gain of $106,000 as of December 31, 2006.

On March 12, 2007, the Fund invested $150,000 in HealthSPAC, LLC. This investment represents the first capital call, where there is a total commitment of $5,000,000. The Fund had previously invested $40,000 to acquire a 40% member s interest. After this $150,000 investment there is a remaining commitment of $4,810,000 on HealthSPAC.

Subsequent Events

On April 2, 2007, the Fund sold U.S. Treasury bills for $30,000,000 and repaid the margin loan.

On April 2, 2007, the Fund received a final escrow payment of $1,413,849 from the sale of Champion Window Holdings, Inc. This amount was included in escrow receivable at March 31, 2007.

On April 3, 2007, the Fund made an investment of $2,000,000 for 13% promissory note with a maturity date of August 3, 2007 with Nickent Golf Equipment, for working capital for development and growth opportunities.

On April 14, 2007, the Fund made a follow-on investment in Riptide Entertainment, LLC of $250,000 for an 8% promissory note with a maturity date of April 12, 2012. On May 2, 2007, the Fund made another follow-on investment of $225,000 for an 8% promissory note with a maturity date of May 2, 2012.

On May 2, 2007, the Fund received 4,484,940 for the sale of The Drilltec Corporation (Drilltec).

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For the period from April 1 through May 14, 2007, the Fund has received approximately $568,000 in interest from Cedar Lodge Holdings, Inc., based on condominium sales activity.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

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

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

Borrowings under the lines of credit expose the Fund to certain market risks. There were no borrowing outstanding during the three months ending March 31, 2007 and 2006.

On August 22, 2006, the Fund entered into a $10 million revolving line of credit agreement (the Credit Facility) with Regions Bank. The initial term of the Credit Facility is through December 31, 2007. The Fund can borrow up to $10 million under the Credit Facility, subject to a borrowing base equal to 20% of the value of the Fund s eligible portfolio assets. The Credit Facility bears a floating interest rate of either LIBOR plus 2.5% or the prime rate, at the Fund s discretion. The Credit Facility is secured by substantially all of the Fund s portfolio assets and securities and contains certain restrictive covenants, including, but not limited to, certain limitations on indebtedness and liens. A facility fee of .25% per annum on the unused portion of the line of credit is payable in arrears, accordingly $6,250 for facility fees has been accrued as interest expense as of March 31, 2007. There were no borrowings outstanding during the three months ended March 31, 2007. The Fund was in compliance with its covenants as of March 31, 2007. See Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the Fund s liquidity and capital resources.

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

The Fund is classified as a non-diversified investment company under the Investment Company Act, which means the Fund is not limited in the proportion of its assets that may be invested in the securities of a single user. The value of one segment called Business Products and Services includes three portfolio companies and was 21% of the net asset value and 41.6% of the Fund s investments in portfolio company securities (at fair value) at March 31, 2007. Changes in business or industry trends or in the financial condition, results of operations, or the market s assessment of any single portfolio company will affect the net asset value and the market price of the Fund s common stock to a greater extent than would be the case if the Fund were a diversified company holding numerous investments.

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 Chairman and 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 Chairman and 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 September 30, 2006. Based on their evaluation, the Fund s Chairman and Chief Executive Officer and Chief Financial Officer concluded that the Fund s

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disclosure controls and procedures are effective in timely making known to them material information relating to the Fund required to be disclosed in the Fund s reports file or submitted under the Exchange Act. There has been no change in the Fund s internal control over financial reporting during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Fund s internal control over financial reporting.

Part II. Other Information

Item 6. Exhibits

3. Articles of Incorporation and by-laws

   (a) Restated Certificate of Incorporation of the Fund dated March 4, 1992. [Incorporated by reference to Exhibit 3(a) to Registrant s Annual Report on Form 10-K for the year ended December 31, 1991.]

   (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, 1993]

   (c) Amended and Restated Bylaws of the Fund. [Incorporated by reference to Exhibit 3(c) to Registrant s Annual Report on Form 10-K for the year ended December 31, 1995.]

10. Material Contracts

   (a) Investment Advisory Agreement dated June 30, 2005, between the Fund and Moore Clayton Capital Advisors, Inc. [Incorporated by reference to Exhibit 10(a) to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.]

   (b) Administration Agreement dated June 30, 2005, between the Fund and Equus Capital Administration Company. [Incorporated by reference to Exhibit 10(b) to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.]

   (c) Safekeeping Agreement between Equus II Incorporated and The Frost National Bank dated March 15, 2004. [Incorporated by reference to Exhibit 10(f) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.]

   (d) Form of Indemnification Agreement between Equus II Incorporated and its directors and certain officers. [Incorporated by reference to Exhibit 10(g) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.]

   (e) Form of Release Agreement between Equus II Incorporated 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.]

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

1. Certification by Chairman and Chief Executive Officer

2. Certification by Chief Financial Officer

32. Section 1350 Certifications

    1. Certification by Chairman and Chief Executive Officer

    2. Certification by Chief Financial Officer

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SIGNATURE

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

EQUUS TOTAL RETURN, INC.

Date: May 15, 2007

/s/ Anthony R. Moore
Anthony R. Moore

Chief Financial Officer

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