EQUUS TOTAL RETURN, INC.
Form 10-Q
August 14, 2007
Index to Financial Statements

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 June 30, 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	**76-0345915**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2727 Allen Parkway, 13th Floor	**77019**

Houston, Texas
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code: (713) 529-0900

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

Indicate by check mark whether the registrant 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 8,265,829 shares of the registrant s common stock, $.001 par value, outstanding, as of August 14, 2007. The net asset value of a share at June 30, 2007 was $11.15.

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

INDEX

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

JUNE 30, 2007 AND DECEMBER 31, 2006

(Unaudited)

	2007	2006
Assets		
Investments in portfolio securities at fair value (cost $49,534,890 and $33,334,824 respectively)	$ 54,469,655	$ 42,626,576
Restricted cash & temporary investments, at cost which approximates fair value	30,285,406	30,278,588
Cash		171,150
Temporary cash investments, at cost which approximates fair value	37,108,202	51,327,938
Accounts receivable	128,290	146,885
Accrued interest and dividends receivable due from portfolio companies	1,004,092	527,877
Deferred Costs	690,173	584,265
Escrowed receivables due from portfolio securities, at fair value	262,500	202,980
Total assets	$ 123,948,318	$ 125,866,259
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 78,688	$ 229,535
Bank overdraft	43,213	
Due to adviser	1,677,839	2,422,061
Borrowing under margin account	29,985,550	29,978,800
Total liabilities	31,785,290	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, 25,000,000 shares authorized, 8,265,829 and 8,164,249 shares outstanding, respectively	8,266	8,164
Additional paid-in capital	98,270,762	97,385,267
Undistributed net investment losses	(25,457,050)	(22,703,320)
Undistributed net capital gains	14,406,285	9,254,000
Unrealized appreciation of portfolio securities, net	4,934,765	9,291,752
Total net assets	$ 92,163,028	$ 93,235,863
Net assets per share	$ 11.15	$ 11.42

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

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

FOR THREE MONTHS ENDED JUNE 30, 2007 AND 2006

(Unaudited)

	2007	2006
Investment income:		
Interest income from portfolio securities	$ 729,466	$ 816,634
Dividend income from portfolio securities	62,800	162,316
Interest from temporary cash investments	478,414	351,631
Total investment income	1,270,680	1,330,581
Expenses:		
Management fee	460,815	421,537
Incentive fee	953,067	169,509
Director fees and expenses	81,770	130,640
Professional fees	189,490	290,110
Administrative fees	112,500	112,500
Mailing, printing and other expenses	117,696	113,954
Interest expense	21,845	31,035
Franchise taxes	44,496	132,420
Total expenses	1,981,679	1,401,705
Net investment loss	(710,999)	(71,124)
Net realized gain on portfolio securities	3,556,505	742,285
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	4,934,765	(8,665,335)
Beginning of period	7,119,161	(12,236,291)
Net change in unrealized appreciation of portfolio securities	(2,184,396)	3,570,956
Net increase in net assets resulting from operations	$ 661,110	$ 4,242,117
Net increase in net assets from operations per share:		
Basic	$ 0.08	$ 0.52
Diluted	$ 0.08	$ 0.52
Weighted average shares outstanding, in thousands		
Basic	8,220	8,106
Diluted	8,220	8,106

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

4

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

FOR SIX MONTHS ENDED JUNE 30, 2007 and 2006

(Unaudited)

	2007	2006
Investment income:		
Interest income from portfolio securities	$ 1,346,049	$ 1,527,216
Dividend income from portfolio securities	124,300	323,332
Interest from temporary cash investments	1,011,777	760,936
Total investment income	2,482,126	2,611,484
Expenses:		
Management fee	921,310	821,541
Incentive fee	1,215,781	1,385,537
Director fees and expenses	170,606	223,291
Professional fees	349,653	393,222
Administrative fees	225,000	225,000
Mailing, printing and other expenses	217,693	138,922
Interest expense	43,522	51,349
Franchise taxes	44,646	147,445
Total expenses	3,188,211	3,386,307
Net investment loss	(706,085)	(774,823)
Net realized gain on portfolio securities	5,152,285	28,164,337
Net unrealized appreciation (depreciation) of portfolio securities:		
End of period	4,934,765	(8,665,335)
Beginning of period	9,291,752	14,043,262
Net change in unrealized appreciation of portfolio securities	(4,356,987)	(22,708,597)
Net increase in net assets resulting from operations	$ 89,213	$ 4,680,917
Net increase in net assets from operations per share:		
Basic	$ 0.01	$ 0.60
Diluted	$ 0.01	$ 0.60
Weighted average shares outstanding, in thousands		
Basic	8,193	7,780
Diluted	8,193	7,780

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

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

STATEMENT OF CHANGES IN NET ASSETS

FOR SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(Unaudited)

	2007	2006
Operations:		
Net investment loss	$ (706,085)	$ (774,823)
Net realized gain on portfolio securities	5,152,285	28,164,337
Net change in unrealized appreciation of portfolio securities	(4,356,987)	(22,708,597)
Net increase in net assets resulting from operations	89,213	4,680,917
Capital share transactions:		
Dividends declared	(2,047,645)	(18,441,480)
Shares issued in dividend	885,597	5,465,555
Decrease in net assets from capital share transactions	(1,162,048)	(12,975,925)
Decrease in net assets	(1,072,835)	(8,295,008)
Net assets at beginning of period	93,235,863	92,602,338
Net assets at end of period	$ 92,163,028	$ 84,307,330

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

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

STATEMENT OF CHANGES IN CASH FLOWS

FOR SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(Unaudited)

	2007	2006
Cash flows from operating activities:		
Interest and dividends received	$ 1,756,656	$ 1,467,853
Cash paid to adviser, directors, banks and suppliers	(4,064,687)	(2,733,533)
Escrow receivable	(59,520)	(8,324,735)
Purchase (sale) of portfolio securities	(22,093,963)	31,760,194
Proceeds from dispositions of portfolio securities	8,111,917	52,229
Principal payments from portfolio securities	3,197,021	20,169,819
Sales of restricted temporary cash investments	(6,818)	
Net cash provided by operating activities	(13,159,393)	42,391,827
Cash flows from financing activities:		
Bank overdraft payable	43,213	
Borrowings under margin account	59,954,750	59,922,631
Repayments under margin account	(59,961,500)	(79,892,749)
Dividends paid	(1,162,048)	(12,975,926)
Deferred costs	(105,908)	
Net cash (used in) financing activities	(1,231,493)	(32,946,044)
Net increase (decrease) in cash and cash equivalents	(14,390,886)	9,445,783
Cash and cash equivalents at beginning of period	51,499,088	25,645,627
Cash and cash equivalents at end of period	$ 37,108,202	$ 35,091,410

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

7

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

STATEMENT OF CHANGES IN CASH FLOWS

FOR SIX MONTHS ENDED JUNE 30, 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	$ 89,213	$ 4,680,917
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	(5,152,285)	(28,164,337)
Decrease in unrealized appreciation, net	4,356,987	22,708,597
Increase in accrued interest receivable due from portfolio companies	(462,715)	(790,595)
Increase in accrued escrow receivable due from portfolio companies	(59,520)	
Decrease in accounts receivable	18,595	
Accrued interest or dividends exchanged for portfolio securities	(262,756)	(353,036)
Decrease in accounts payable and accrued liabilities	(150,847)	(16,246)
Increase (decrease) in due to adviser	(744,222)	669,021
Purchase of portfolio securities	(22,093,963)	(8,324,735)
Proceeds from dispositions of portfolio securities	8,111,917	31,760,193
Principal payments from portfolio securities	3,197,021	52,229
(Purchases) sales of restricted temporary cash investments	(6,818)	20,169,819
Net cash (used in) provided by operating activities	$ (13,159,393)	$ 42,391,827

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

8

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

SUPPLEMENTAL INFORMATION SELECTED PER SHARE DATA AND RATIOS

FOR SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(Unaudited)

	2007	2006
Investment income	$ 0.30	$ 0.34
Expenses	0.39	0.44
Net investment income	(0.09)	(0.10)
Realized gain on dispositions of portfolio securities, net	0.63	3.62
Decrease in unrealized appreciation of portfolio securities, net	(0.53)	(2.92)
Increase in net assets resulting from operations	0.01	0.60
Capital Transactions:		
Dividend declared	(0.25)	(2.50)
Dilutive effect of shares issued in common stock dividend	(0.03)	(0.25)
Decrease in net assets from capital transactions	(0.28)	(2.75)
Net decrease in net assets	(0.27)	(2.15)
Net assets at beginning of period	11.42	12.55
Net assets at end of period	$ 11.15	$ 10.40
Net assets at end of period-diluted	$ 11.15	$ 10.40
Weighted average number of shares outstanding during period, in thousands	8,193	7,780
Market value per share at end of period	$ 8.95	$ 7.18
Selected ratios:		
Ratio of expenses to average net assets	3.44%	3.83%
Ratio of net investment income to average net assets	(0.76)%	(0.88)%
Ratio of increase in net assets resulting from operations to average net assets	0.10%	5.29%
Total return on market price	7.73% *	8.40%

* Adjusted for dividends

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

9

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

June 30, 2007

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	% of Each Class	Cost of Investment	Fair Value(4)
The Bradshaw Group Richardson, TX	Printing Equipment	May 2000	576,828 Class B Shares 12.25% preferred stock	18%	$ 1,794,546	$ 325,000
			38,750 Class C shares preferred stock			
			788,649 Class D shares 15% preferred stock			
			2,218,109 Class E shares 8% preferred stock			
			Warrant to buy 2,229,450 shares of common stock through May 2008		1	
ConGlobal Industries Holding, Inc. Houston, TX	Shipping Containers	February 1997	24,397,303 shares of common stock	29%	$ 1,370,495	
			Promissory note(2)		3,227,992	2,732,580
			Member interest in CCI-ANI Finance, LLC(2)		2,702,616	2,287,835
			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	119,305
Creekstone Florida Holdings, LLC Houston, TX	Real Estate	December 2005(4)	17-19.8% subordinated promissory note(1)	100%	$ 4,192,754	$ 4,192,754
Equus Media Development Company, LLC Houston, TX	Media	January 2007(4)	Member Interest	100%	$ 5,000,000	$ 5,000,000

Equus Media Finance Company, LLC Houston, TX	Media	March 2007(4)	Member Interest	100%	$ 100,000	$ 100,000
HealthSpac, LLC El Segundo, CA	Healthcare	December 2006(4)	Member interest (40%)	40%	$ 190,000	$ 190,000
INFINIA Corporation Kennewick, WA	Energy	June 2007(4)	666,667 Class A Shares Preferred Stock	16%	$ 3,000,000	$ 3,000,000

10

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

June 30, 2007

Continued

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	% of Each Class	Cost of Investment	Fair Value(4)
Nickent Golf, Inc. City of Industry, CA	Entertainment and Leisure	June 2007(4)	13% Promissory Note	61%	$ 6,000,000	$ 6,000,000
			Warrants to buy 463,917 shares of common stock at $0.97 per share through August 4, 2009, warrant terms subject to change			
PalletOne, Inc. South Bartow, FL	Wooden pallet manufacturer	October 2001	350,000 shares of common stock	21%	$ 350,000	$ 2,100,000
Riptide Entertainment, LLC Miami, FL	Entertainment and Leisure	December 2005(4)	Member interest (64.67%)	65%	$ 64,667	$ 64,667
			8% promissory notes		4,835,000	4,835,000
RP&C International Investments LLC New York, NY	Healthcare	September 2006(4)	350,000 shares of common stock	17%	$ 3,304,549	$ 3,304,549
Sovereign Business Forms, Inc. Houston, TX	Business Forms Manufacturer	August 1996	27,312 shares of preferred stock(1)(2)	31%	$ 2,855,500	$ 2,855,500
			15% promissory notes(1)(2)		4,937,622	4,937,622
			Warrant to buy 551,894 shares of common stock at $1 per share through Aug 2007			197,053
			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 Carrollton, TX	Business and personal property protection	December 1999	285,000 units of Class A equity interest	79%	$ 2,850,000	$ 9,400,000
			16% subordinated promissory note(1)(2)		1,303,698	1,303,698
					386,241	386,241

	12.75% subordinated promissory note(2)		
TOTAL		**$ 49,534,890**	**$ 54,469,655**

(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.

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

JUNE 30, 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, for the six months June 30, 2007, the Fund was considered to have a controlling interest in Cedar Lodge Holdings, Inc., Creekstone Florida Holdings, ConGlobal Industries, Inc., 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 $1,158,859 and $1,850,548 for the six months June, 2007 and 2006, respectively, on portfolio securities of companies in which the Fund has a controlling interest. Income was earned in the amount of $311,490 and $0 for the six months June 30, 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. Many of the Fund s portfolio companies (except ConGlobal Industries, Inc., Nickent, INFINIA Corporation, 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 June 30, 2007:

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$ 24,883,306	$ 24,387,894	26.5%
Limited liability company investments	12,431,042	12,101,261	13.1%
Common Stock	4,570,495	11,500,000	12.5%
Preferred stock	7,650,046	6,180,500	6.7%
Options and warrants	1	300,000	0.3%
Total	$ 49,534,890	$ 54,469,655	59.1%

Three notes receivable included in secured and subordinated debt with an estimated fair value of $9,360,140 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 $13,497,303 in fair value.

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES

JUNE 30, 2007

(Unaudited)

(Continued)

The following is a summary by industry of the Fund s investments as of June 30, 2007:

Industry	**Fair Value**	**Fair Value as Percentage of Net Assets**
Business Products and Services	$ 19,508,060	21.2%
Leisure and Entertainment	10,899,667	11.8%
Shipping Products and Services	8,274,625	9.0%
Media	5,100,000	5.5%
Real Estate	4,192,754	4.5%
Healthcare	3,494,549	3.8%
Energy	3,000,000	3.3%
Total	$ 54,469,655	59.1%

13

Index to Financial Statements

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 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 Advisers, 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 June 30, 2007, the Fund had cash and unrestricted temporary investments of $37,108,202. The Fund had $54,469,655 of its total assets of $123,948,318 invested in portfolio securities. Restricted assets totaled $30,285,406, of which $29,985,550 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 $299,856 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 on July 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 restrictive covenants, including, but not limited to, the maintenance of certain financial ratios and certain limitations on indebtedness, liens, sales of assets, mergers and transactions with affiliates. A facility fee of .25% per annum on the unused portion of the line of credit is payable in arrears and $2,083 is accrued to interest expense as of June 30, 2007.

Index to Financial Statements

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.

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, Inc, 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. Additional follow-on investments include 8% promissory notes for $225,000 on May 2, 2007, $400,000 on May 11, and $2,600,000 on June 18, all maturing in 2012.

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

During the quarter ended June 30, 2007, the Fund has received approximately $1,103,660 in principal and interest from Cedar Lodge Holdings, Inc., based on condominium sales activity.

For the periods from May 23 through May 30, 2007, the Fund received final escrow payments totaling $261,617 from the sale of Alenco Windows.

On June 13, 2007, the Fund made an investment of $3,000,000 in exchange for 666,667 Class A Preferred Shares in INFINIA Corporation, to further the company s sales and product development programs and for company operations.

On June 21, 2007, the Fund made a follow-on investment with Nickent Golf, Inc of $6,000,000 for a 13% promissory note with a maturity date of June 20, 2011, for working capital, strategic marketing and global expansion, and received $2,000,000 repayment of the bridge loan dated April 3, 2007.

On June 25, 2007, the Fund paid second quarter cash dividends in the amount of approximately $596,042, 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 June 30, 2007 the Fund had total remaining commitments of $16,810,000 with $5,100,000, $4,900,000 and $2,000,000 committed to Riptide Entertainment LLC, Equus Media Finance Company LLC and Nickent Golf, Inc all in the leisure and entertainment sector. An additional $4,810,000 is committed to HealthSPAC, which is in the healthcare sector.

During the six months ended June 30, 2007 and 2006, the amount of interest and loan fees paid in cash was $43,521 and $52,679, respectively.

RIC Borrowings, Restricted Cash and Temporary Investments See Note 3 at Federal Income Taxes for further disclosure regarding Fund borrowings and purchasing government securities, including possible associated risks, to satisfy certain requirements of the Internal Revenue Code.

As of June 30, 2007 and 2006, the Fund borrowed $29,985,550 and $29,975,432 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 $30,285,406 and 30,275,186 as of June 30, 2007 and 2006, respectively. The U.S. Treasury bills were sold and the total amounts borrowed were repaid in July 2007 and 2006, respectively.

(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:

15

Index to Financial Statements

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 $54,469,655 (including no publicly traded securities) and $49,566,265 (including no publicly traded securities) as of June 30, 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.

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 the full amount of escrow and generated a capital gain of $1,402,753 from Champion Windows Holdings, Inc. (Champion Windows). This Champion Windows 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. The Fund received the full amount of escrow or $261,617 as final payments from the Alenco Holding Corporation escrow account during May 2007.

Index to Financial Statements

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 (RIC) 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. Among other requirements, the Code requires that a RIC satisfy a two part diversification test with respect to its investment portfolio holdings. First, at the close of each quarter of the taxable year, at least 50% of the value of a RIC s total assets are invested in: (a) cash; (b) cash items; (c) government securities; (d) securities of other RICs; and (e) investments in other securities which, with respect to any one issuer, do not represent more than 5% of the assets of the RIC nor more than 10% of the voting securities of such issuer. Second, at the close of each quarter of the taxable year, not more than 25% of the value of the RIC s total assets are invested in the securities (other than government securities or the securities of other RICs) of any one issuer. In order to satisfy the diversification test, the Fund at times has borrowed sufficient funds utilizing a margin account with a securities brokerage firm to purchase government securities. On these occasions, the holdings of government securities has permitted the Fund to reduce the percent holdings of certain issuers below the 5% and/or the 25% limits. To our knowledge, the Internal Revenue Service has not provided definitive guidance on a RIC borrowing and investing in the noted manner to comply with the diversification test. If the Service were to take a contrary view to the Fund s and/or the Fund were unable to borrow sufficient funds in the future, the Fund may no longer qualify as a RIC. In this case, the Fund would 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 the Fund and its stockholders. See Note 2 at RIC Borrowings, Restricted Cash and Temporary Investments for disclosure regarding specific Fund borrowings and government securities purchases to maintain the Fund s RIC status.

(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.

(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 $1,215,780 (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.

Index to Financial Statements

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.

Both the Advisory Agreement and the Administrative Agreement have been extended for one year by approval of the Board of Directors.

(6) 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 June 25, 2007, to shareholders of record as of the close of business on May 21, 2007. The Fund paid $596,042 in cash and issued 48,930 additional shares of common stock at $8.81 per share on June 25, 2007, in payment of such dividend. 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 $8.63 per share on March 30, 2007, in payment of such dividend. The classification of the dividends 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 $7.49 per share on March 23, 2006, in payment of such dividend.

Index to Financial Statements

(7) Portfolio Securities

During the six months ended June 30, 2007, the Fund invested $10,100,000 in four new companies and made follow-on investments of $12,256,719 in five follow-on investments including $262,756 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 $5,152,285 (significant transactions include the sale of Drilltec Corporation which generated a capital gain of $3,484,940 and the receipt of final escrow payment from the sale of Champion which generated a capital gain of $1,402,753 during the six months ended June 30, 2007.

During the six months ended June 30, 2006, the Fund invested $8,677,771 in eight follow-on investments in eight companies, including $353,036 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 $28,164,337 (the sale of Champion generated a net capital gain of $26,846,269) during the six months ended June 30, 2006.

(8) Subsequent Events

On July 9, 2007, the Fund made a follow-on investment in HealthSpac, LLC of $175,000 for working capital.

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 four new investment other than follow-on investments during the six months ended June 30, 2007 and made no new investments other than follow-on investments during the six months ended June 30,2006.

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.

Index to Financial Statements

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 $54,469,655 (including no publicly traded securities) and $49,566,265 (including no publicly traded securities) as of June 30, 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.

Index to Financial Statements

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.

Liquidity and Capital Reserves

Net cash provided by (used in) operating activities was $($13,159,393) and $42,391,827 for the six months ended June 30, 2007 and 2006, respectively. Approximately $24.4 million in estimated value of the Fund s investments are in the form of notes receivable from portfolio companies. However, only three of the portfolio companies are currently paying cash interest to us in accordance with their respective notes receivable, which aggregate $18,434,925 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 six months ended June 30, 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.

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.

Index to Financial Statements

Results of Operations

Investment Income and Expense

Net investment loss after all expenses was $706,085 and $774,823 for the six months ended June 30, 2007 and 2006 respectively and $710,999 and $71,124 for the three months ended June 30, 2007 and 2006, respectively. Total income from portfolio securities was $1,470,349 and $1,850,548 for the six months ended June 30, 2007 and 2006 respectively and $792,266 and $978,950 for the three months ended June 30, 2007 and 2006 respectively . The net investment loss generated at June 30, 2007 compared to 2006, is due primarily to the incentive fee expense accrual of $953,067 for the three months ended June 30, 2007, compared to an incentive fee of $169,509 for the three months ended June 30, 2006, due to the gain on the sale of The Drilltec Corporation in May 2007.

Interest from temporary cash investments increased from $760,936 to $1,011,777 for the six months ended June 30, 2007 and 2006, respectively. This increase is primarily due to the increase in cash generated from the sale of Champion Windows.

The Adviser receives management fee compensation at an annual rate of 2% of the net assets of the Fund paid quarterly in arrears. Such fees amounted to $921,310 and $821,541 during the six months ended June 30, 2007 and 2006, respectively and $460,815 and $421,537 for the three months ended June 30, 2007 and 2006, respectively. The increase in management fees during the six months and three months ended June 30, 2006, was due to an increase in net assets between the two periods which was primarily due to valuation increases and subsequent cash generated from the sales of Champion Window Holdings, Inc., Doane PetCare Enterprises, Inc., and The Drilltec Corporation.

With the change in adviser, 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 six months ended June 30, 2007 are $1,215,781, based on the capital gains generated by the sale of The Drilltec Corporation and the receipt of final escrow payment from the sale of Champion Windows. The estimated incentive fee expenses for the six months ended June 30, 2006 were $1,385,537 based on capital gains generated by the sale of Champion Windows.

Director fees and expenses decreased by $52,685 and $48,870 for the six months and three months ended June 30, 2007 and 2006, respectively, due primarily due to a reduction of the number of independent directors in 2007 along a with decline in meetings for the period.

Professional fees declined by $43,569 for the six months ended June 30, 2007 compared to June 30, 2006 and declined by $700,620 for the three months ended June 30, 2007 and 2006, respectively, due primarily to consulting fees incurred in connection with the future growth of the Fund in 2006.

Administrative fees were unchanged for the six months ended June 30, 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.

Franchise taxes declined $102,799 and $87,924 for the six and three months ended June 30, 2007, as the Fund decreased its s ownership in portfolio companies.

Realized Gains and Losses on Sales of Portfolio Securities

During the six months ended June 30, 2007, the Fund realized net capital gains of $5,152,285. The Fund received the final the escrow payment for Champion Windows realizing a capital gain of $1,402,753. The Fund sold its investment in The Drilltec Corporation for a realized capital gain of $3,484,940. In addition, the Fund realized capital gains of $990,454 for Cedar Lodge Holdings, Inc. The Fund had other capital gains of $222,650 and realized a short-term capital gain of $11,120 on U.S. Treasury Bills. The Fund also realized a loss on TurfGrass America Inc.

During the six months ended June 30, 2006, the Fund realized net capital gains of $28,164,337. The Fund sold its 1,410,000 shares of common stock and 10,000 warrants of Champion Window Holdings, Inc. for $28,331,141, realizing a capital gain of $26,846,269. The Fund sold a portion of its escrow ownership in Alenco Window Holdings, LLC, for $428,185, realizing a capital gain of $428,185. The Fund sold a portion of its escrow ownership in Doane PetCare Enterprises, Inc. for $628,208, realizing a capital gain of $628,208. The Fund increased the value of the escrow account of Strategic Holdings, Inc. for a capital gain of $190,000. In addition, the Fund had other capital gains of $44,955 and realized a short-term capital gain of $26,720 on U.S. Treasury Bills.

Index to Financial Statements

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Net unrealized appreciation on investments decreased by $4,356,987 during the six months ended June 30, 2007, from a net unrealized appreciation of $9,291,752 to a net unrealized appreciation of $4,934,765. Such decrease in appreciation resulted a transfer of $3,484,940 in net unrealized appreciation to net realized appreciation for sale of the Drilltec Corporation. The decrease in appreciation was also a result of the decline in estimated fair market value of ConGlobal Industries Holding, Inc., resulting from a decline in operations for the period.

Net unrealized depreciation on investments increased by $22,708,597 during the six months ended June 30, 2006, from a net unrealized appreciation of $14,043,262 to a net unrealized depreciation of $8,665,335. Such increase in depreciation resulted primarily from the transfer of $26,640,341 in net unrealized appreciation to net realized appreciation for Champion Window Holdings, Inc. The increase in depreciation was also increased by the transfer of $428,185 and $628,208 in net unrealized appreciation to net realized appreciation for Alenco Window Holdings, LLC and Doane PetCare Enterprises, Inc., escrow accounts, respectively. The Fund had additional decreases in unrealized depreciation which resulted from increases in the estimated fair value of six of its portfolio companies aggregating $6,591,382 which is primarily comprised of PalletOne, Inc. and The Drilltec Corporation due to improved operating performances at both companies. The Fund had additional increases in unrealized depreciation which resulted from decreases in the estimated fair value of two of the portfolio companies amounting to $1,603,245.

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 June 25, 2007, to shareholders of record as of the close of business on May 21, 2007. The Fund paid $596,041 in cash and issued 48,930 additional shares of common stock at $8.81 per share on June 25, 2007, in payment of such dividend. 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 $8.63 per share on March 30, 2007, in payment of such dividend. The classification of the dividends 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 $12,975,925 in cash and issued 729,773 additional shares of common stock at $7.49 per share on March 23, 2006, in payment of such dividend.

Portfolio Investments

During the six months ended June 30, 2007, the Fund invested $10,100,000 in four new companies and made follow-on investments of $12,256,719 in five follow-on investments , including $262,756 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 $5,152,285 (significant transactions include the sale of Drilltec Corporation which generated a capital gain of $3,484,940 and final escrow payment from the sale of Champion which generated a capital gain of $1,402,753 during the six months ended June 30, 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 which has a development financing agreement with Kopelson Entertainment for the purchase of creative material to be used for commercial exploitation in a variety of formats including but not limited to the production of motion pictures.

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.

Index to Financial Statements

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 April 2, 2007, the Fund received a final escrow payment of $1,413,849 from the sale of Champion Window Holdings, Inc.

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, Inc., 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. Additional follow-on investments include 8% promissory notes for $225,000 on May 2, 2007, $400,000 on May 11, and $2,600,000 on June 18, all maturing in 2012.

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

For the six month period, the Fund has received approximately $3.2 million in principal, interest and realized gains from Cedar Lodge Holdings, Inc., based on condominium sales activity.

For the periods from May 23 through May 30, 2007, the Fund received final escrow payments totaling $261,617 from the sale of Alenco Windows.

On June 13, 2007, the Fund made an investment of $3,000,000 in exchange for 666,667 Class A Preferred Shares in INFINIA Corporation, to further the company s sales and product development programs and for company operations.

On June 21, 2007, the Fund made a follow-on investment with Nickent Golf, Inc. of $6,000,000 for a 13% promissory note with a maturity date of June 20, 2011, for working capital, strategic marketing and global expansion, and received $2,000,000 in repayment of the bridge loan date April 3, 2007.

Subsequent Events

On July 9, 2007, the Fund made a follow-on investment in HealthSpac, LLC of $175,000 for working capital.

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. Based on the average outstanding borrowings under the Fund s lines of credit for the six months ended June 30, 2007 and 2006, respectively, of approximately $0 and $0 a change of one percent in the interest rate would have caused a change in interest expense of approximately $0. This change would have resulted in no change in the net asset value per share at June 30, 2007 and 2006, respectively.

Index to Financial Statements

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 , the maintenance of certain financial ratios and certain limitations on indebtedness, liens, sales of assets, mergers and transactions with affiliates. A facility fee of .25% per annum on the unused portion of the line of credit is payable in arrears and $2,083 is accrued to interest expense as of June 30, 2007, There were no borrowings outstanding during the six months ended June 30, 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 35.8% of the Fund s investments in portfolio company securities (at fair value) at June 30, 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 June 30, 2007. Based on their evaluation, the Fund s Chairman and Chief Executive Officer and Chief Financial Officer concluded that the Fund s 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 six months ended June 30, 2007, 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

Index to Financial Statements

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: August 14, 2007

/s/ Kenneth I. Denos
Kenneth I. Denos
Chief Executive Officer

27