

EQUUS TOTAL RETURN, INC.
Form PRE 14A
April 02, 2010

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by Party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting materials pursuant to Rule 14a-11(c) or Rule 14a-12

EQUUS TOTAL RETURN, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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No fee required.

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule, or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notice of the 2010

Annual Meeting of Stockholders

Meeting Date: May 12, 2010
Meeting Time: 10:00 a.m., EDT
Location: Goodwin Procter LLP

The New York Times Building

26th Floor

620 Eighth Avenue

New York, NY 10018

Purpose of the Meeting

To elect 9 directors, each for a term of one year;

To ratify the appointment of UHY LLP as the Fund's independent auditor for fiscal year ending December 31, 2010; and

To transact such other business as may properly come before the annual meeting.

Voting

All holders of record of shares of the Fund's common stock (NYSE: EQS) at the close of business on March 15, 2010 (the Record Date), or their legal proxy holders, are entitled to vote at the meeting and any postponements or adjournments of the meeting.

Please submit a proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy online, by phone, or by mail. For specific instructions, please refer to the Questions and Answers in this proxy statement and the instructions on the proxy card.

We are distributing this proxy statement and proxy form to stockholders on or about [].

By order of the Board of Directors,

RICHARD F. BERGNER

Chairman of the Board

[]

Houston, Texas

Important Notice Regarding the Availability of Proxy Materials for the Fund's Annual Meeting of Stockholders to be held on May 12, 2010

This proxy statement, proxy card and the Fund's Annual Report to Stockholders for the fiscal year ended December 31, 2009 are available free of charge at the following website: www.proxyvote.com.

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PROXY STATEMENT

This proxy statement contains information relating to the annual meeting of Equus Total Return, Inc. ("EQS" or the "Fund"). The annual meeting of stockholders (the "Meeting") or any postponement or adjournment thereof will be held on Wednesday, May 12, 2010, beginning at 10:00 a.m., Eastern Daylight Time, at Goodwin Procter LLP, The New York Times Building, 26th Floor, 620 Eighth Avenue, New York, NY 10018. The Board of Directors is sending stockholders this proxy statement to solicit proxies to be voted at the annual meeting. It is being mailed to stockholders on or about April [], 2010.

ABOUT THE MEETING

What is the purpose of the Meeting?

At the Meeting, stockholders will be asked to elect Fund directors (see Proposal 1) and ratify the selection of the Fund's independent registered public accounting firm (see Proposal 2). We have nominated four new directors to serve on the Fund's Board of Directors. We invite you to read the summary backgrounds of these persons in the Proposal 1 section of this proxy statement.

Who is entitled to vote at the Meeting?

If you owned shares of the Fund on the Record Date, you are entitled to receive notice of and to participate in the Meeting. A list of stockholders on the Record Date will be available for inspection at the Fund's office at Eight Greenway Plaza, Suite 930, Houston, Texas 77046 for ten days before the Meeting.

What are the voting rights of holders of the Fund's common stock?

You may cast one vote per share of the Fund's common stock that you held on the Record Date on each proposal considered at the Meeting. These shares are: (a) held directly in your name as the stockholder of record or (b) held for you as the beneficial owner through a stockbroker, bank, or other nominee.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Many stockholders of the Fund hold their shares in "street name" through a stockbroker, bank or other nominee rather than directly in their own name. There are some important distinctions in how Fund shares are held.

Stockholder of Record. If your shares are registered directly in your name with the Fund's transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record; therefore, these proxy materials are being sent directly to you by the Fund. As the stockholder of record, you have the right to vote in person at the Meeting, or to grant your voting proxy directly to the Fund. You may vote online, by phone, or by mail.

Beneficial Owner. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in "street name." Your broker or nominee, who is considered the stockholder of record with respect to those shares, has forwarded these proxy materials to you. As the beneficial owner, you have the right to provide your broker with instructions on how to vote and are also invited

to attend the Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Meeting (unless you have a signed proxy from the record holder, as described below). Your broker or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares.

Broker Non-Votes. New York Stock Exchange (NYSE) rules permit a broker member to vote on certain routine matters, including the ratification of auditors, without instructions from the beneficial owner of the shares. The election of directors is considered non-routine; therefore, brokers are not permitted to vote in director elections without instructions from the beneficial owners. If a beneficial owner does not instruct the broker to vote for or against a proposal and the broker is not permitted to vote in its discretion (*i.e.*, the proposal is non-routine), the broker will cast what is known as a broker non-vote. The shares represented by a broker non-vote are generally considered present for purposes of a quorum but not counted for or against the proposal. If there are no routine matters being presented to shareholders, brokers will not vote uninstructed shares. However, if there are routine matters being presented to shareholders, brokers will vote the uninstructed shares in their discretion on the routine matter and cast a broker non-vote for the uninstructed shares on the non-routine matters.

What constitutes a quorum?

A quorum must be present at the Meeting for any business to be conducted. The presence at the Meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the Record Date will constitute a quorum. As of the Record Date, 8,861,646 shares of the Fund's common stock, representing the same number of votes, were outstanding.

If there are not enough votes for a quorum or to approve a proposal at the Meeting, the stockholders who are represented in person or by proxy may adjourn the Meeting to permit the further solicitation of proxies. The persons named as proxies will vote proxies held by them for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

What are the Board's recommendations?

The Board recommends a vote **For** the election of the nominated slate of directors (see Proposal 1) and **For** the ratification of the appointment of UHY LLP (UHY) as the Fund's independent registered public accounting firm (see Proposal 2). Unless you give other instructions in your proxy, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board. With respect to any other matter that properly comes before the Meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

What vote is required to approve the proposals?

Election of Directors. The affirmative vote of a majority of the total of votes cast for a nominee at the Meeting at which a quorum is present is necessary for the election of a director. Abstentions and broker non-votes, if any, will not be counted as votes cast and will have no effect on this proposal.

Ratification of Public Accounting Firm. The affirmative vote of a majority of all of the votes cast at the Meeting at which a quorum is present is required to ratify the selection of the public accounting firm. Abstentions will not be counted as votes cast and will have no effect on this proposal. Broker non-votes will be voted **For** this proposal.

How are votes counted?

In the election of directors, you may vote **For** all of the nominees or your vote may be **Withheld** with respect to one or more of the nominees. To ratify the selection of the independent auditor, you may vote **For**

the ratification, **Against**, or you may **Abstain**. If you execute your proxy or provide broker voting instructions without specifying further your preference as to the nominees, your shares will be voted in accordance with the recommendations of the Board.

Who can attend the Meeting?

All stockholders as of the Record Date, or their duly appointed proxies, may attend the Meeting. Each stockholder may be asked to present valid identification. Cameras, recording devices, and other electronic devices will not be permitted at the Meeting.

Please note that if you hold your shares in street name (that is, through a broker, bank, or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the Record Date.

How can I vote my shares in person at the Meeting?

Shares held directly in your name as the stockholder of record may be voted in person at the Meeting. If you choose to do so, please bring proof of identification. Even if you plan to attend the Meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the Meeting. Shares held in street name may be voted in person by you only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

How can I vote my shares without attending the Meeting?

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct your vote without attending the Meeting by granting your voting proxy to the Fund (if you are the stockholder of record) or by providing voting instructions to your broker or nominee (if you hold shares beneficially in street name). You may vote online, by phone, or by mail. Please refer to the enclosed voting instruction card for details.

Can I change my vote after I execute my proxy?

Yes. You may change your proxy instructions at any time prior to the vote at the Meeting. You may accomplish this by granting a new proxy or new broker voting instructions at a later date (which automatically revokes the earlier proxy instructions) or by attending the Meeting and voting in person. Attendance at the Meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

What does it mean if I receive more than one notice of the Meeting?

It means your shares are registered differently or are in more than one account. Please grant a voting proxy and/or provide voting instructions for all accounts that you hold.

Where can I find the voting results of the Meeting?

We will announce preliminary voting results at the Meeting and publish the final results in a Fund Form 8-K within four days after the day on which the Meeting ended.

Who can I call if I have a question?

If you have any questions about this proxy statement, please call us toll-free at 1-866-821-2606 between 9:00 a.m. and 5:00 p.m., Eastern Daylight Time, Monday through Friday.

STOCK OWNERSHIP

Who are the largest owners of the Fund's stock?

Based on a review of filings with the SEC, the Fund is aware of two beneficial owners of more than 5% of the outstanding shares of the Fund's common stock: (i) Sam P. Douglass; and (ii) Mobiquity Investments Limited and Versatile Systems Inc.

How much stock do the Fund's directors and executive officers own?

The following table shows the amount of the Fund's common stock beneficially owned (unless otherwise indicated) as of March 15, 2010, by (1) any person known to the Fund to be the beneficial owner of more than 5% of the outstanding shares of the Fund's common stock, (2) each director/director nominee of the Fund, (3) each named executive officer, and (4) all directors/director nominees and executive officers as a group.

The number of shares beneficially owned by each entity, person, director/director nominee, or executive officer is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the entity or individual has sole or shared voting power or investment power and also any shares that the entity or individual had the right to acquire as of March 15, 2010, or within 60 days after March 15, 2010, through the exercise of any stock option or other right. Unless otherwise indicated, to our knowledge each individual has sole investment and voting power, or shares such powers with his spouse, with respect to the shares set forth in the table.

Name	Sole Voting and Investment Power	Other Beneficial Ownership	Total	Percent of Class Outstanding
Kenneth I. Denos				
Sam P. Douglass ⁽¹⁾	51,564	716,026 ⁽²⁾	767,590	8.66%
Fraser Atkinson ⁽⁴⁾		822,031	822,031	9.28%
Alessandro Benedetti ⁽⁴⁾		822,031	822,031	9.28%
Richard F. Bergner				
Charles M. Boyd, M.D.	1,098		1,098	*
Alan D. Feinsilver	3,397		3,397	*
Gregory J. Flanagan	21,514		21,514	*
Henry W. Hankinson				
John A. Hardy ⁽⁴⁾		822,031	822,031	9.28%
Robert L. Knauss	10,670		10,670	*
Bertrand des Pallieres ⁽⁴⁾		822,031	822,031	9.28%
Dr. Francis D. Tuggle	6,536		6,536	*
L. Sheryl D. Hudson ⁽³⁾				
All directors/director nominees and executive officers as a group (17 persons)	110,678	1,538,057	1,648,735	18.61%

* Indicates less than one percent.

(1) Mr. Douglass' business address is P.O. Box 130197, Houston, TX 77219.

(2) Includes (a) 58,197 shares held directly and in retirement accounts by Mr. Douglass' spouse, and (b) 657,829 shares held by trusts for the benefit of members of Mr. Douglass' family, of which Mr. Douglass is the trustee and a lifetime beneficiary, a trust of which Mr. Douglass is the beneficiary, and a trust of which Mr. Douglass' spouse is the beneficiary. Mr. Douglass disclaims beneficial ownership of all shares not directly owned by him.

(3) Ms. Hudson serves as the Fund's Vice President, Chief Financial Officer and Chief Compliance Officer. Ms. Hudson is not a director or director nominee.

(4) Includes 822,031 shares held directly by Mobiquity Investments Limited and Versatile Systems, Inc.

Section 16(a) beneficial ownership compliance

Under the federal securities laws, our directors, executive officers, and any persons beneficially owning more than ten percent of our common stock are required to report their ownership of our common stock and any changes in that ownership to the Fund and the SEC. Specific due dates for these reports have been established by regulation. Based solely upon a review of reports furnished to the Fund and written representations of certain persons that no other reports were required, we believe that all of our directors and executive officers complied during 2009 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act).

COMPENSATION OF NAMED EXECUTIVE OFFICERS

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides information about the fiscal year 2009 compensation program for our named executive officers (NEOs). This section explains how the Compensation Committee made its compensation decisions for our NEOs after the Fund internalized its operations on July 1, 2009. The discussion below also addresses the principal elements of our approach to compensation.

Our NEO compensation program is designed to satisfy two objectives: (i) compensating the Fund's NEOs appropriately for their contributions to the Fund's growth, profitability and other goals and objectives; and (ii) linking the interests of the Fund's NEOs to the long-term interests of the Fund's equity owners. Our compensation program recognizes both short-term and long-term success but our focus in administering our NEO compensation program is on rewarding the intermediate and long-term performance of our NEOs, as measured by the Fund's performance and relative shareholder return.

Our compensation program consists primarily of two elements: base salary and possible annual cash bonus. Our senior executives do not have employment agreements or severance or change-of-control agreements. In addition, while our executives participate in a defined contribution retirement plan, we do not have any supplemental retirement benefits and generally do not provide perquisites to our executive officers. Accordingly, we believe that the total level of compensation is critical to maintaining the competitiveness of our compensation arrangements, particularly given the absence of supplemental benefits and plans.

We pay base salaries to our NEOs, which constitutes the bulk of their total compensation. While the NEOs' initial base salary is determined by an assessment of competitive market levels, the factors used in determining changes to base salary include individual performance, changes in role and/or responsibility and changes in the competitive market environment. The Fund may pay an annual cash bonus that results in cash payments to our NEOs. The amount of the cash bonus is determined by the Compensation Committee on a discretionary basis.

In determining the structure of our executive compensation program and the appropriate levels of incentive opportunities, the Compensation Committee considers whether the program rewards reasonable risk-taking and whether the incentive opportunities achieve the proper balance between the need to reward employees and the need to protect shareholder returns. We believe that the focus on total compensation provides incentives to create long-term value for shareholders while taking thoughtful and prudent risks to grow the Fund.

Summary Compensation Table

The following table summarizes the total compensation that the Fund paid during the fiscal year ended December 31, 2009 to the NEOs, who are the chief investment officer, the chief financial officer and our three other most highly compensated executive officers.

Name and Principal Position	Year*	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$) ***	Total (\$)
Gregory J. Flanagan** President and Chief Executive Officer	2009	50,000**	n/a	n/a	n/a	n/a	n/a	0	50,000
L. Sheryl D. Hudson Chief Financial Officer	2009	175,000	6,750	n/a	n/a	n/a	n/a	5,438	187,188
Gary L. Forbes Senior Vice President	2009	220,000	4,750	n/a	n/a	n/a	n/a	6,728	231,478

* No information is provided for 2008 and 2007 because the Fund did not begin to directly compensate its management team until July 1, 2009.

** Mr. Flanagan became an officer of the Fund on July 1, 2009, when the Fund internalized its management operations. He was paid \$100,000 on an annualized basis. Mr. Flanagan resigned as a Fund officer on February 16, 2010.

*** Reflects the Fund's contributions to vested and unvested defined contribution plans of the NEOs.

Report of the Compensation Committee

As part of our responsibilities, we have reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K, which begins on page 5 of this proxy statement. Based on such review and discussions, we have recommended to the Board of Directors the inclusion of the Compensation Discussion and Analysis in this proxy statement.

Robert L. Knauss

Henry W. Hankinson

GOVERNANCE OF THE FUND**How is the Fund's internalized management structured?**

The Board of Directors changed the Fund's operations to an internalized management structure on July 1, 2009. This means that, unlike most closed-end funds and business development companies, the Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to the Fund under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered.

What are the duties of the Board of Directors?

Leadership Structure. The Board provides overall guidance and supervision with respect to the operations of the Fund and performs the various duties specified for directors of business development companies under the

Investment Company Act of 1940 (the 1940 Act). Among other things, the Board supervises Fund management, the custodial arrangements for portfolio securities, the selection of accountants, fidelity bonding, and transactions with affiliates.

The Board meets in regularly scheduled meetings each year. All Board actions are taken by majority vote unless a higher percentage is required by law or the Fund's certificate of incorporation or by-laws require that the actions be approved by a majority of the directors who are not interested persons (as defined in the 1940 Act) of the Fund referred to as independent directors.

The 1940 Act requires that a majority of the Fund's directors be independent directors. The Board is currently composed of 9 directors, including 7 independent directors. As discussed below, the Board has established 4 Committees to assist the Board in performing its oversight responsibilities.

The Board has appointed an independent director to serve in the role of Chairman of the Board. The Chairman's primary role is to set the agenda of the Board and determine what information is provided to the Board with respect to matters to be acted upon by the Board. The Chairman presides at all meetings of the Board and leads the Board through its various tasks. The Chairman also acts as a liaison with management in carrying out its functions. The Chairman may perform such other functions as may be requested by the Board. The designation of Chairman does not impose on such independent director any duties, obligations or liability that is greater than the duties, obligations or liability imposed on such person as a member of the Board, generally.

The Fund has determined that the Board's leadership structure is appropriate given the characteristics and circumstances of the Fund, including such items as the business development company requirements, net assets of the Fund, the committee structure of the Fund.

Risk Oversight. Through the Board's direct oversight role, and indirectly through its Committees, the Board performs a risk oversight function for the Fund consisting, among other things, of the following activities:

General Oversight. The Board meets with representatives of management and key service providers, including the custodian and the independent audit firm of the Fund, to review and discuss the operational activities of the Fund and to provide direction with respect thereto.

Compliance Oversight. The Board reviews and approves, as applicable, the compliance procedures of Fund. The Board is informed how the compliance procedures adhere to the operational requirements through its meeting with, and reports received from the Chief Compliance Officer. The Board also discusses the adequacy of internal controls and compliance procedures with the Fund's Chief Compliance Officer and independent auditors.

Investment Oversight. The Board monitors Fund performance during the year through regular performance reports from management with references to appropriate performance measurement indices and the performance of similar funds. The Board receives focused performance presentations on a regular basis. The Board also monitors the Fund's investment practices and reviews the Fund's investment strategies with management.

Valuation Oversight. The Board has approved the valuation methodologies used in establishing the daily values of the Fund's assets and monitors the accuracy with which the valuations are carried out. The Board receives regular reports on the use of fair value prices and monitors the effectiveness of the valuation procedures.

What Committees has the Board established?

The Board has four standing committees: an Audit Committee, a Governance and Nominating Committee, a Compensation Committee, and a Committee of Independent Directors.

Who are the current Board members and what are their Committee memberships?

The members of the Board of Directors on the date of this proxy statement and the Board Committees on which they serve are identified in the following table:

Director	Audit Committee	Compensation Committee	Committee of Independent Directors	Governance and Nominating Committee
Richard F. Bergner, Chair	*		*	*
Charles M. Boyd, M.D.	*		*	
Kenneth I. Denos				
Sam P. Douglass				
Alan D. Feinsilver	*		*	
Gregory J. Flanagan	*		*	
Henry W. Hankinson	*	Chair	*	Chair
Robert L. Knauss	Chair	*	*	
Dr. Francis D. Tuggle	*		*	

Audit Committee

The charter of the Audit Committee specifies that the purpose of the Audit Committee is to assist the Board in its oversight of the integrity of:

The Fund's financial statements,

The Fund's compliance with legal and regulatory requirements,

The independence and qualifications of the Fund's independent registered public accounting firm, and

The performance of the Fund's internal audit function and independent registered public accounting firm. In furtherance of the foregoing purpose, the Committee's authority and responsibilities include to:

Review and oversee the Fund's annual and quarterly financial statements;

Recommend, for shareholder approval, the appointment of the Fund's independent registered public accounting firm, and oversee the compensation, retention, oversight, and other matters relating to the engagement or discharge of the independent registered public accounting firm;

Oversee the Fund's financial controls and reporting processes;

Review the Fund's financial reporting and accounting standards and principles;

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Review the performance of the Fund's internal audit function and the performance of the independent registered public accounting firm;

Review and investigate any matters pertaining to the integrity of management, including conflicts of interest or adherence to standards of business conduct; and

Establish procedures for handling complaints involving accounting, internal accounting controls, and auditing matters.

The charter of the Audit Committee is available on the Fund's website (www.equuscap.com). The Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its duties. The Committee's meetings include, whenever appropriate, executive sessions with the Fund's independent registered public accounting firm without the presence of management.

Each member of the Committee is an independent director within the meaning of SEC regulations and the listing standards of the New York Stock Exchange (NYSE). The Committee met 6 times during 2009.

Each member of the Audit Committee is an independent director within the meaning of SEC regulations and the listing standards of the NYSE. Robert L. Knauss, the chair of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE.

Committee of the Independent Directors

The functions of the Committee of the Independent Directors are to: recommend to the full Board approval of any management, advisory, or administration agreements; recommend to the full Board any underwriting or distribution agreements; review the fidelity bond and premium allocation; review any joint insurance policies and premium allocation; review and monitor the Fund's compliance with procedures adopted pursuant to certain rules promulgated under the 1940 Act; and carry out such other duties as the independent directors shall, from time to time, conclude are necessary in the performance of their duties under the 1940 Act.

The Committee of Independent Directors met at regularly scheduled Board Meetings in executive sessions without any members of management present. Each member of the Committee is an independent director within the meaning of SEC regulations and the listing standards of the NYSE. While Mr. Denos and Mr. Douglass are not members of the Committee of Independent Directors, they nevertheless, as non-management directors, participate in certain regularly scheduled executive sessions with non-management separate and apart from the meetings of the Committee of Independent Directors.

Compensation Committee

The Compensation Committee is responsible for reviewing and evaluating the compensation of the Fund's employees. The Committee sets the compensation for the Fund's chief executive officer, chief financial officer and three most highly compensated executive officers. In addition, the Committee periodically reviews independent director compensation and recommends any appropriate changes to the Board. Lastly, the Committee produces a report on the Fund's executive compensation practices and policies for inclusion in the Fund's proxy statement if required by applicable proxy rules and regulations and makes recommendations to the Board on the Fund's executive compensation practices and policies. The charter of the Compensation Committee is available on the Fund's website (www.equuscap.com).

Each member of the Committee is an independent director within the meaning of SEC regulations and the listing standards of the NYSE. The Committee met 2 times during 2009.

Governance and Nominating Committee

The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance. The Committee selects individuals for nomination to the Fund's Board of Directors. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. The charter of the Governance and Nominating Committee is available on the Fund's website (www.equuscap.com).

All of the members of the Committee are independent directors within the meaning of SEC regulations and the listing standards of the NYSE. The Committee met once during 2009.

How does the Board select nominees for the Board?

The Governance and Nominating Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. A stockholder who wishes to recommend a prospective nominee for the Board should notify the Fund's Secretary or any member of the Governance and Nominating Committee in writing in care of Equus Total Return, Inc., Eight Greenway Plaza, Suite 930, Houston, TX 77046. To be considered by the Nominating and Governance Committee, stockholder nominations must be submitted before our fiscal year-end and must be accompanied by a description of the qualifications of the proposed candidate and a written statement from the proposed candidate that he or she is willing to be nominated and desires to serve if elected. The Governance and Nominating Committee will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Fund's by-laws relating to stockholder nominations as described in *Additional Information Stockholder Proposals for the 2010 Annual Meeting*, below. Nominees for director who are recommended by stockholders will be evaluated in the same manner as any other nominee for director.

Once the Governance and Nominating Committee has identified a prospective nominee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors considered by the Committee. If the Committee determines, in consultation with the other Board members as appropriate, that additional consideration is warranted, it may gather additional information about the prospective nominee's background and experience. A Committee member will interview a qualified candidate, and a qualified candidate may meet other directors. The Committee then determines, based on the background information and information obtained in interviews, whether to recommend to the Board that a candidate be nominated to the Board.

The Committee believes a prospective nominee for director should, at a minimum, satisfy the following standards and qualifications and evaluates prospective nominees accordingly:

The ability of the prospective nominee to represent the interests of the stockholders of the Fund;

The prospective nominee's standards of integrity, commitment, and independence of thought and judgment;

The prospective nominee's ability to dedicate sufficient time, energy, and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards; and

The extent to which the prospective nominee contributes to the range of talent, skill, and expertise appropriate for the Board. The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, diversity, and the need for Audit Committee expertise.

In considering diversity, the Committee considers diversity of background and experience as well as ethnic and other forms of diversity. The Committee does not, however, have any formal policy regarding diversity in identifying nominees for a directorship, but rather, considers it among the various factors relevant to any particular nominee. After completing the evaluation and interview, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.