EQUUS TOTAL RETURN, INC.
Form 10-Q
November 12, 2010

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 September 30, 2010

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period to

Commission File Number 814-00098

EQUUS TOTAL RETURN, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0345915 (I.R.S. Employer Identification No.)
Eight Greenway Plaza, Suite 930 Houston, Texas	77046

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

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

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller Reporting Company ¨

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

There were 8,861,646 shares of the registrant's common stock, $.001 par value, outstanding, as of November 10, 2010.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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EQUUS TOTAL RETURN, INC.
BALANCE SHEETS

Part I. Financial Information

Item 1. Financial Statements

(in thousands, except per share amounts)		September30, 2010 (Unaudited)		December 31, 2009
Assets				
Investments in portfolio securities at fair value:				
Control investments (cost at $34,171 and $35,315 respectively)	$	17,114	$	28,729
Affiliate investments (cost at $923 and $8,973 respectively)		727		2,128
Non-affiliate investments (cost at $20,305 and $13,350 respectively)		3,510		11,554
Total investments in portfolio securities at fair value		21,351		42,411
Restricted cash and temporary investments		16,160		30,299
Cash		2,477		535
Temporary cash investments		4,928		5,510
Accounts receivable and other		174		47
Accrued interest receivable due from portfolio companies		2,598		2,205
Deferred offering costs		65		-
Total assets		47,753		81,007
Liabilities				
Accounts payable and accrued liabilities	$	178	$	107
Accounts payable to related parties		101		-
Borrowing under margin account		16,000		29,999
Total liabilities		16,279		30,106
Net assets	$	31,474	$	50,901
Net assets consist of:				
Common stock, par value		9		9
Capital in excess of par value		70,598		70,604
Undistributed net investment losses		(5,085)		(4,485)
Unrealized depreciation of portfolio securities, net		(34,048)		(15,227)
Total net assets	$	31,474	$	50,901
Shares of common stock issued and outstanding, $.001 par value, 50,000 shares authorized		8,862		8,862
Shares of preferred stock $.001 par value, 5,000 shares authorized, no shares outstanding		-		-
Net asset value per share	$	3.55	$	5.74

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except per share amounts)	Three months ended September 30, 2010	2009
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	$ 274	$ 809
Affiliate investments	13	13
Non-affiliate investments	319	501
Total interest and dividend income	606	1,323
Interest from temporary cash investments	2	6
Total investment income	608	1,329
Expenses:		
Compensation expense	244	259
Professional fees	123	375
Director fees and expenses	62	111
Mailing, printing and other expenses	37	52
General and administrative expense	42	81
Interest expense	7	11
Taxes	14	-
Total expenses	529	889
Net investment income	79	440
Net realized loss on portfolio securities:		
Temporary cash investments	(1)	(6)
Total net realized loss on portfolio securities	(1)	(6)
Net unrealized depreciation of portfolio securities:		
End of period	(34,048)	(15,842)
Beginning of period	(27,556)	(8,043)
Net change in unrealized depreciation of portfolio securities	(6,492)	(7,799)
Net decrease in net assets resulting from operations	$ (6,413)	$ (7,365)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	$ (0.72)	$ (0.83)
Weighted average shares outstanding, in thousands		
Basic and diluted	8,862	8,862

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

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EQUUS TOTAL RETURN, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except per share amounts)	Nine months ended September 30, 2010	2009
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	$ 851	$ 1,361
Affiliate investments	39	37
Non-affiliate investments	1,387	1,510
Total interest and dividend income	2,277	2,908
Interest from temporary cash investments	9	41
Total investment income	2,286	2,949
Expenses:		
Management fee	-	714
Administrative fees	-	226
Compensation expense	793	259
Professional fees	1,300	1,014
Director fees and expenses	275	356
Mailing, printing and other expenses	317	212
General and administrative expense	132	81
Interest expense	31	33
Taxes	38	30
Total expenses	2,886	2,925
Net investment income loss	(600)	24
Net realized loss on portfolio securities:		
Temporary cash investments	(6)	(38)
Total net realized loss on portfolio securities	(6)	(38)
Net unrealized depreciation of portfolio securities:		
End of period	(34,048)	(15,842)
Beginning of period	(15,227)	(3,055)
Net change in unrealized depreciation of portfolio securities	(18,821)	(12,787)
Net decrease in net assets resulting from operations	$ (19,427)	$ (12,801)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	$ (2.19)	$ (1.46)
Weighted average shares outstanding, in thousands		
Basic and diluted	8,862	8,766

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(in thousands)	Nine months ended September 30, 2010	2009
Net decrease in net assets resulting from operations	$ (19,427)	$ (12,801)
Capital share transactions:		
Dividend declared	-	(921)
Shares issued in dividend	-	919
Net increase (decrease) in net assets resulting from capital share transactions	-	(2)
Decrease in net assets	(19,427)	(12,803)
Net assets at beginning of period	50,901	78,435
Net assets at end of period	$ 31,474	$ 65,632

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Nine months ended September 30, 2010		2009	
Reconciliation of decrease in net assets resulting from operations to net cash provided by operating activities:				
Net decrease in net assets resulting from operations	$	(19,427)	$	(12,801)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:				
Net realized loss		6		38
Net change in unrealized depreciation of portfolio securities		18,821		12,787
Changes in operating assets and liabilities:				
Purchase of portfolio securities		(775)		(720)
Principal payments received from portfolio securities		3,501		916
Sales of restricted temporary cash investments		14,133		11,043
Decrease in accounts receivable and other		(127)		(46)
Increase in accrued interest receivable due from portfolio securities		(880)		(1,600)
Increase in deferred offering costs		(65)		-
Increase (decrease) in accounts payable and accrued liabilities		71		(103)
Increase in accounts payable-related parties		101		-
Decrease in due to adviser		-		(455)
Net cash provided by operating activities		15,359		9,059
Cash flows from financing activities:				
Borrowings under margin account		55,999		117,038
Repayments under margin account		(69,998)		(128,009)
Dividends paid		-		(2)
Net cash used in financing activities		(13,999)		(10,973)
Net decrease in cash and cash equivalents		1,360		(1,914)
Cash and temporary cash investments at beginning of period		6,045		8,656
Cash and temporary cash investments at end of period	$	7,405	$	6,742
Non-cash operating and financing activities:				
Shares issued in lieu of cash dividend	$	-	$	919
Accrued interest or dividends exchanged for portfolio securities	$	487	$	875
Supplemental disclosure of cash flow information:				
Interest paid	$	7	$	42
Income taxes paid	$	38	$	17

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

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EQUUS TOTAL RETURN, INC.
SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS
(Unaudited)

	Nine months ended September 30,	
	2010	2009
Investment income	$0.26	$0.34
Expenses	(0.33)	0.34
Net investment income (loss)	(0.07)	-
Net realized loss on portfolio securities	-	-
Net change in unrealized depreciation of portfolio securities	(2.12)	(1.46)
Net decrease in net assets resulting from operations	(2.19)	(1.46)
Capital transactions:		
Dividend declared	-	(0.11)
Dilutive effect of shares issued in common stock dividend	-	(0.18)
Decrease in net assets resulting from capital transactions	-	(0.29)
Net decrease in net assets	(2.19)	(1.75)
Net assets at beginning of period	5.74	9.16
Net assets at end of period, basic and diluted	$3.55	$7.41
Weighted average number of shares outstanding during period, in thousands	8,862	8,766
Market value per share at end of period	$2.38	$3.22
Selected ratios:		
Ratio of expenses to average net assets	7.01%	4.06%
Ratio of net investment gain (loss) to average net assets	(1.46)%	0.03%
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	(47.17)%	(17.77)%
Total return on market price*	(25.63)%	(22.62)%

* Adjusted for dividends and can be calculated as the current market value plus year-to-date dividends declared less the beginning market value, divided by the beginning market value. There were no dividends paid in the nine months ending September 30, 2010.

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF PORTFOLIO SECURITIES
SEPTEMBER 30, 2010
(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment (in thousands)	Fair Value(1)
Control investments: Majority-owned (5):						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		$ 4,000	$ 1,175
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%)		65	-
			8% promissory notes (4)	$ 10,009	10,009	-
					10,074	-
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock (64.66% / 55.00% Fully Diluted)		5,080	4,552
			12% subordinated promissory notes (2)	3,107	3,107	3,107
					8,187	7,659
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (79%)		2,850	590
			16% subordinated promissory note(2)(3)	1,690	1,690	1,690
					4,540	2,280
Total Control investments: Majority-owned (represents 52.1% of total investments at fair value)					$ 26,801	$ 11,114
Control Investments: Non-majority owned(6):						
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock (32.22%)		$ 1,370	$ -
			7% subordinated promissory note (2)	$ 6,000	6,000	6,000
					7,370	6,000
Total Control Investments: Non-majority Owned (represents 28.1% of total investments at fair value)					$ 7,370	$ 6,000
Total Control Investments: (represents 80.2% of total investments at fair value)					$ 34,171	$ 17,114
Affiliate Investments(7):						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (20% / 18.70% Fully Diluted)		350	50
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.20%)		573	677

Total Affiliate Investments (represents 3.4% of total investments at fair value)	$	923	$	727

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF PORTFOLIO SECURITIES – (Continued)
SEPTEMBER 30, 2010
(Unaudited)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment (in thousands)
Non-Affiliate Investments (less than 5% owned):					
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note (2)(3)	$ 3,806	$ 3,806
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% promissory note (2)(3)	3,274	3,274
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	115,180 shares common stock (0.63%)		$ 8,000
			Option to purchase 16,000 shares of common stock at $6.50 per share through December 19, 2012		—
					8,000
London Bridge Entertainment Partners Ltd London, UK	Entertainment and leisure	August 2008	18% promissory notes (2)(3)	3,430	3,430
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock		1,795
			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 2016		—
					1,795
Trulite, Inc. El Dorado Hills, CA	Alternative energy	August 2008	Warrants to buy 8,934,211 shares of common stock through at $0.01 - $0.38 per share through November 2015	—	—
Total Non-Affiliate Investments (represents 16.4% of total investments at fair value)					$ 20,305
Total Investments					$ 55,399

(1) See Note 3 to the financial statements, Valuation of Investments.
(2) Income-producing.

(3) Income on these securities is paid-in-kind by the issuance of additional securities, accrual to maturity or through accretion of original issue discount.

(4) Non-income producing.

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

(6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.

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

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

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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, all of the Fund’s investments are in eligible portfolio companies. The Fund provides significant managerial assistance to portfolio companies that comprise 84.1% of the total value of the investments in portfolio companies as of September 30, 2010.

The Fund’s investments in portfolio securities consist of the following types of securities as of September 30, 2010 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$31,317	$14,186	45.1 %
Limited liability company investments	7,488	2,442	7.8 %
Common stock	6,799	4,602	14.6 %
Preferred stock	9,795	-	0.0 %
Options and warrants	-	121	0.4 %
Total	$55,399	$21,351	67.8 %

Three notes receivable included in secured and subordinated debt with an estimated fair value of $3.4 million provide that all or a portion of interest is paid in kind or the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. For the remainder of the secured and subordinated debt, cash payments of interest are currently being received and/or accrued on notes aggregating $10.8 million in fair value.

The following is a summary by industry of the Fund’s investments in portfolio securities as of September 30, 2010 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Entertainment and leisure	$3,389	10.9 %
Business products and services	9,939	31.6 %
Shipping products and services	6,050	19.2 %
Media	1,175	3.7 %
Alternative energy	121	0.4 %
Healthcare	677	2.2 %
Total	$21,351	67.8 %

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2009

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
					(in thousands)	
Control Investments: Majority-owned(5):						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		$ 5,000	$ 5,000
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%)		65	—
			8% promissory notes(4)	$ 10,010	10,010	3,151
					10,075	3,151
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock		5,080	4,256
			12% promissory notes(2)	3,250	3,250	3,250
					8,330	7,506
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest			
			16% subordinated		2,850	3,208
			promissory note(2)(3)	1,690	1,690	1,690
					4,540	4,898
Total Control Investments: Majority-owned (represents 48.5% of total investments at fair value)					$ 27,945	$ 20,555
Control Investments: Non-majority owned (6)						
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock		$ 1,370	$ 2,174
			7% promissory note(2)	$ 6,000	6,000	6,000
					7,370	8,174
Total Control Investments: Non-majority Owned (represents 19.3% of total investments at fair value)					$ 7,370	$ 8,174
Total Control Investments: (represents 67.8% of total investments at fair value)					$ 35,315	$ 28,729
Affiliate Investments(7):						
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	1,151,800 shares preferred stock		$ 8,000	$ 1 ,497
			Option to purchase 16,000 shares common stock at $6.50 per share through December 19, 2012		—	11
					8,000	1,490
Nickent Golf, Inc. City of Industry, CA	Entertainment and leisure	June 2007	8% receivership certificate(4)	$ 50	50	25

			3,000,000 shares Class A convertible preferred stock	—	—
			Warrants to buy 15,000 shares of common stock at $0.60 per share through March 17, 2013	—	—
			Warrants to buy 1,434,149 shares of common stock at $0.60 per share through August 16, 2012, warrant terms subject to change	—	—
				50	25
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock	350	—
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.2%)	573	613
Total Affiliate Investments (represents 5.0% of total investments at fair value)				$ 8,973	$ 2,128

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF PORTFOLIO SECURITIES – (Continued)
DECEMBER 31, 2009

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investm (in thousa
Non-Affiliate Investments (less than 5% owned):					
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note(2)(3)	$ 3,587	$ 3,587
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% promissory note(2)(3)	3,153	3,
London Bridge Entertainment Partners Ltd London, UK	Entertainment and leisure	August 2008	18% promissory note(2)(3)	2,707	2,
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock		1,
			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 2016		
					1,
Trulite, Inc. El Dorado Hills, CA	Alternative energy	August 2008	18% promissory note(2)(3)	2,107	2,
			Warrants to buy 6,934,211 shares of common stock ranging from at $0.01 - $0.38 per share through November 2015		
					2,
Total Non-Affiliate Investments (represents 27.2% of total investments at fair value)					$ 13,
Total Investments					$ 57,

(1) See Note 3 to the financial statements, Valuation of Investments.
(2) Income-producing.
(3) Income on these securities is paid-in-kind by the issuance of additional securities, accrual to maturity or through accretion of original issue discount.
(4) Non-income producing.
(5) Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 50% of the voting securities of the company.
(6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.

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

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF PORTFOLIO SECURITIES – (Continued)
DECEMBER 31, 2009

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, all of the Fund's investments are in eligible portfolio companies. The Fund provides significant managerial assistance to portfolio companies that comprise 77.7% of the total value of the investments in portfolio securities as of December 31, 2009.

The Fund's investments in portfolio securities consist of the following types of securities at December 31, 2009 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$ 32,555	$ 25,671	50.5 %
Limited liability company investments	8,488	8,820	17.3 %
Common stock	6,800	6,430	12.6 %
Preferred stock	9,795	1,479	2.9 %
Options and warrants	—	11	0.0 %
Total	$ 57,638	$ 42,411	83.3 %

Three notes receivable included in secured and subordinated debt with an estimated fair value of $9.4 million provide that all or a portion of interest is paid-in-kind or the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. For the remainder of secured and subordinated debt, cash payments of interest are currently being received and/or accrued on notes aggregating $13.1 million in fair value, while notes totaling $3.2 million are non-income producing.

The following is a summary by industry of the Fund's investments as of December 31, 2009 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Entertainment and leisure	$12,624	24.8 %
Business products and services	12,403	24.4 %
Shipping products and services	8,174	16.1 %
Alternative energy	3,597	7.1 %
Media	5,000	9.8 %
Healthcare	613	1.1 %
Total	$42,411	83.3 %

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

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EQUUS TOTAL RETURN, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009
(Unaudited)

(1) Description of Business and Basis of Presentation

Description of Business—Equus Total Return, Inc. (the "Fund," "EQS"), 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 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 organically. The Fund may also invest in recapitalizations of existing businesses or special situations from time to time. The Fund also invests in debt financing with the objective of generating regular interest income back to the Fund. Debt financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. The Fund elected to be treated as a business development company under the Investment Company Act of 1940 ("1940 Act"). For tax purposes, the Fund has elected to be treated as a regulated investment company ("RIC"). Prior to July 1, 2009, the Fund was externally managed pursuant to an investment advisory agreement and also received certain administrative services from an external administrator. Effective June 30, 2009, these arrangements were terminated. Since July 1, 2009, the Fund has had no outside investment advisory organization providing services under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered.

Effective August 11, 2006, the Fund 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.

Basis of Presentation—In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and Securities Exchange Act of 1934, the Fund does not consolidate portfolio company investments, including those in which it has a controlling interest. The Fund's interim consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and in accordance with the requirements of reporting on Form 10-Q and Article 10 of Regulation S-X, under the Securities Exchange Act of 1934, as amended. Accordingly, they are unaudited and exclude some disclosures required for annual financial statements. Management believes it has made all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of these interim financial statements.

The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of results that ultimately may be achieved for the year. The interim unaudited consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund's Form 10-K for the fiscal year ended December 31, 2009, as filed with the Security and Exchange Commission ("SEC"). Certain prior period information has been reclassified to conform to current year presentation.

(2) Liquidity and Financing Arrangements

Liquidity —There are several factors that may materially affect the Fund's liquidity during the reasonably foreseeable future. The Fund views this period as the twelve month period from the date of the financial statements in this Form 10-Q, i.e., the period through September 30, 2011.

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Management is evaluating the impact of current market conditions on its portfolio company valuations and their ability to provide current income. Management has followed valuation techniques in a consistent manner; however, it is cognizant of current market conditions that might effect future valuations of portfolio securities. The Fund believes that its operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Cash and Temporary Investments—As of September 30, 2010, the Fund had cash and temporary cash investments of $7.4 million. The Fund had $21.4 million of its net assets of $31.5 million invested in portfolio securities. Restricted assets totaled $16.2 million, of which $16.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund’s pass-through tax treatment and $0.2 million for the required 1% brokerage deposit. These securities were held by a securities brokerage firm and were 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 October 1, 2010.

As of December 31, 2009, the Fund had cash and temporary cash investments of $6.0 million. The Fund had $42.4 million of its net assets of $50.9 million invested in portfolio securities. Restricted assets totaled $30.3 million, of which $30.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund’s pass-through tax treatment and $0.3 million for the required 1% brokerage 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 January 4, 2010.

Dividends —On March 24, 2009, the Fund announced that it suspended its managed distribution policy and payment of quarterly distributions for an indefinite period. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund’s market value per share as at the end of the preceding calendar year. The Fund will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the Investment Company Act of 1940.

Revolving Line of Credit Agreement—Effective September 8, 2010, the Fund terminated its revolving line of credit agreement (the “Credit Facility”) with Amegy Bank of Texas. The Credit Facility was secured by substantially all of the Fund’s portfolio assets and securities. It contained certain restrictive covenants, including, but not limited to, a requirement that the Fund’s net asset value not fall below $40.0 million. The Fund did not borrow any amounts under the Credit Facility.

Investment Commitments—As of September 30, 2010, the Fund had an outstanding commitment of $0.8 million to Spectrum Management, LLC.

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.

RIC Borrowings, Restricted Cash and Temporary Investments—As of September 30, 2010 and December 31, 2009, the Fund borrowed sufficient funds to maintain the Fund’s RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on the Fund’s net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be material to the Fund and its stockholders.

As of September 30, 2010, the Fund borrowed $16.0 million 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 $16.2 million. The U.S. Treasury bills were sold and the total amount borrowed was repaid on October 1, 2010.

As of December 31, 2009, the Fund borrowed $30.0 million 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 $30.3 million. The U.S Treasury bills were sold on January 4, 2010 and the total amount borrowed was repaid at that time.

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Certain Risks and Uncertainties— Economic conditions during 2009 and 2008 along with market dislocations resulted in a significant decline in the availability of debt and equity capital and has had a continuing impact in 2010. Generally, the limited amount of available debt financing has shorter maturities, higher interest rates and fees, and more restrictive terms than debt facilities available in the past. In addition, during 2010 the price of our common stock continued to remain well below our net asset value. Because of these challenges, our near-term strategies shifted from originating debt and equity investments to preserving liquidity necessary to meet our operational needs. Key initiatives undertaken by the Fund during 2009 and 2010 to provide necessary liquidity include the termination of certain follow-on investment commitments, monetizations, suspension of managed distribution policy and the internalization of management. Although there can be no assurances that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our 2010 operating requirements.

(3) Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with 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. Although management believes the estimates and assumptions used in preparing these interim financial statements and related notes are reasonable in light of known facts and circumstances, 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 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 generally valued at their quoted market price at the close of business on the valuation date.

Privately-held portfolio securities—The fair value of investments for which no market exists is determined on the basis of procedures established in good faith by 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 estimated values arrived at by the Fund 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. Preliminary appraised values are determined quarterly by management. The Audit Committee of the Board of Directors may engage independent, third-party valuation firms to conduct independent appraisals and review management’s preliminary valuations in order to make their own independent assessment of each privately-held investment that the Fund (a) has held for more than one year and (b) holds on its books at a fair value of at least $2.0 million. Any third-party valuation data would be considered as one of many factors in a fair value determination. The Audit Committee then would recommend the fair values for all privately-held securities based on all relevant factors to the Board of Directors for final approval.

Most of the Fund’s common equity investments of privately held companies are appraised either at a multiple of earnings before interest, taxes, depreciation and amortization (“EBITDA”) generated by the company financial statements on a trailing twelve month fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock, utilizing a discounted cash flow model which incorporates projected future cash flows of the company, or alternative methodology including the Black-Scholes Option Pricing Model. Projections of current year and future period cash flows may be utilized and adjustments for non-recurring items are considered. EBITDA multiples and discount rates utilized are estimated based on current market conditions and past experience in the private company marketplace, and are necessarily subjective in nature. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable. In addition, if the valuation of a portfolio company deteriorates the Fund will perform a liquidation analysis of the assets when applicable to determine fair value.

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.

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For valuation purposes, the Fund uses the income approach to value its debt instruments. Since the Fund's general intent is to hold its loans to maturity, the fair value will not exceed the cost of the investment. A change in the assumptions the Fund uses to estimate fair value of debt securities using the yield analysis could have a material impact on the determination of fair value. If credit quality deteriorates or a debt security is in workout status, the Fund may consider other factors in determining the fair value of the debt security, including the fair value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would be received in an orderly or forced liquidation.

From time to time, a portfolio company may default on certain covenants in its loan agreement. When management has a reasonable belief that the portfolio company may restructure the loan agreement to adjust for any defaults, the portfolio investment will be valued assuming that the company is a going concern.

The Fund may consider alternative fair value methodologies when a portfolio company: 1) cannot generate adequate cash flow to meet the principal and interest payments on its indebtedness; 2) is not successful in refinancing the its debt upon maturity; 3) Fund management believes the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions may result in the company's inability to meet future obligations; or 4) the portfolio company's reorganization or bankruptcy. These methodologies include the fair value attributable to the debt security from the enterprise value of the portfolio company or an asset-based approach including an analysis of the possible proceeds received in an orderly or forced liquidation.

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 $21.4 million and $42.4 million as of September 30, 2010 and December 31, 2009, respectively, the Fund's fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. On a daily basis, the Fund adjusts its net asset value for the changes in the value of its publicly held securities, if applicable, and material changes in the value of its private securities, generally determined on a quarterly basis or as announced in a press release, 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. There were no publicly traded securities as of September 30, 2010 and December 31, 2009.

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

The Fund classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in companies in which EQS owns more than 25% of the voting securities or maintains greater than 50% of the board representation. Under the 1940 Act, "Affiliate Investments" are defined as those non-control investments in companies in which EQS owns between 5% and 25% of the voting securities. Under the 1940 Act, "Non-affiliate Investments" are defined as investments that are neither Control Investments nor Affiliate Investments.

Interest Income Recognition—The Fund records interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that it expects to collect such amounts. The Fund accretes or amortizes discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities. The Fund stops accruing interest on investments when it determines that interest is no longer collectible. If the Fund receives any cash after determining that interest is no longer collectible, it treats such cash as payment on the principal balance until the entire principal balance has been repaid, before it recognizes any additional interest income.

Payment in Kind Interest—The Fund has loans in its portfolio that may pay payment in kind (“PIK”) interest. The Fund adds PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain its status as a RIC, the Fund must pay out to stockholders this non-cash source of income in the form of dividends even if it has not yet collected any cash in respect of such investments.

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.

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

Texas margin tax applies to legal entities conducting business in Texas, including previously non-taxable entities such as limited partnerships and limited liability partnerships. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax.

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.

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Texas margin tax applies to legal entities conducting business in Texas, including previously non-taxable entities such as limited partnerships and limited liability partnerships. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax.

Fair Value Measurement —In September 2006, the Financial Accounting Standard Board (FASB) issued guidance regarding Fair Value Measurements which defined fair value, establishes a framework for measuring fair value, outlined a fair value hierarchy based on inputs used to measure fair value and enhanced disclosure requirements for fair value measurements. The guidance did not change existing guidance as to whether an instrument is carried at fair value. The Fund adopted changes issued by the FASB to fair value disclosures of financial instruments which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund has categorized all investments recorded at fair value based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument's anticipated life. Fair valued assets that are generally included in this category are warrants held in a public company.

Level 3 — Inputs reflect management's best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are debt, warrants and/or other equity investments held in a private company. For loan and debt securities, the Fund has performed a yield analysis assuming a hypothetical current sale of the security. The yield analysis considers changes in interest rates and changes in leverage levels of the portfolio company as compared to the market interest rates and leverage levels. Assuming the credit quality of the portfolio company remains stable, the Fund will use the value determined by the yield analysis as the fair value for that security.

The Fund will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and will record unrealized appreciation when it determines that the fair value is greater than its cost basis.

As of September 30, 2010, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

		Fair Value Measurements As of September 30, 2010		
(in thousands)	Total	Quoted Prices in	Significant Other	Significant Unobservable

		Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Assets				
Investments:				
Control investments	$ 17,114	$ -	$ -	$ 17,114
Affiliate investments	727	-	-	727
Non-Affiliate investments	3,510	-	-	3,510
Total assets reported at fair value	$ 21,351	$ -	$ -	$ 21,351

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As of December 31, 2009, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

	Fair Value Measurements As of December 31, 2009			
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Affiliate investments	$28,729	$ —	$ —	$ 28,729
Non-Affiliate investments	2,128	—	—	2,128
Affiliate investments	11,554	—	—	11,554
Total assets reported at fair value	$42,411	$ —	$ —	$ 42,411

The following table provides a reconciliation of fair value changes during the nine months ending September 30, 2010 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using significant unobservable inputs (Level 3)			
(in thousands)	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2009	$ 28,729	$ 2,128	$ 11,554	$ 42,411
Total realized gains (losses)	—	—	—	—
Change in unrealized appreciation (depreciation)	(10,471)	(686)	(7,664)	(18,821)
Purchases, issuances and settlements, net	(1,144)	(50)	(1,045)	(2,239)
Change in control	—	(665)	665	—
Transfers in (out) of Level 3	—	—	—	—
Fair value as of September 30, 2010	$ 17,114	$ 727	$ 3,510	$ 21,351

The following table provides a reconciliation of fair value changes during the nine months ending September 30, 2009 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using unobservable inputs (Level 3)			
(in thousands)	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2008	$ 37,190	$ 20,974	$ 10,135	$ 68,299
Total realized gains	—	—	—	—
Change in unrealized appreciation (depreciation)	(2,079)	(9,970)	(738)	(12,787)
Purchases, issuances and settlements, net	(514)	318	874	678
Transfers in (out) of Level 3	—	—	738	738
Fair value as of September 30, 2009	$ 34,597	$ 11,322	$ 11,009	$ 56,928

Reclassification —Certain amounts for the three and nine months ended September 30, 2009 have been reclassified in the comparative financial statements to be comparable to the presentation in the three and nine months ended September 30, 2010. These reclassifications had no effect on net assets, net income or cash flows from operating activities.

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(4) Related Party Transactions and Agreements

The Fund had entered into an investment advisory agreement dated June 30, 2005 with Moore Clayton Capital Advisors, Inc., pursuant to which Moore Clayton Capital Advisors, Inc. (“MCCA”), provided investment advisory services in exchange for an advisory fee. The Fund also had entered into an administration agreement dated June 30, 2005 with Equus Capital Administration Company, Inc. (“ECAC”), pursuant to which ECAC provided administrative services in exchange for an administrative fee. The Fund’s Board of Directors terminated the advisory agreement and the administrative agreement effective June 30, 2009. Since that date, the Fund has been “internally” managed, which means that the Fund directly employs its management team and incurs the costs and expenses associated with Fund operations.

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. An annual fee of $15,000 is paid to the Chairman of the Board of Directors. In respect of services provided to the Fund by members of the Board not in connection with their roles and duties as directors, the Fund shall pay a rate of $250 per hour for services rendered. The Fund incurred $0.1 million which is included in compensation expense in the September 30, 2010 statement of operations and $0.04 million which is included in deferred offering costs in the September 30, 2010 balance sheet for services provided by Kenneth I. Denos, Secretary of the Fund.

In June, 2010, the Fund ratified and approved the use of A+ Filings, LLC (“A+ Filings”) to file its reports with the Securities and Exchange Commission. Mr. Kenneth I. Denos, Secretary of the Fund, holds a majority of the voting shares of A+ Filings. The Fund incurred $4,000 in services rendered by A+ Filings during the nine months ended September 30, 2010.

(5) Dividends

On February 27, 2009, the Fund announced the declaration of a first quarter dividend of $0.1075 per share. The Fund issued 296,528 additional shares of its common stock at an effective price of $3.10 per share and paid $2,000 in cash for fractional shares. This dividend was 100% qualified and classified as 21% ordinary income and 79% return of capital.

On March 24, 2009, the Fund announced that it suspended its managed distribution policy and payment of quarterly distributions for an indefinite period, following the distribution of the first quarter dividend, paid on March 30, 2009. The Fund will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the Investment Company Act of 1940.

(6) Portfolio Securities

During the nine months ended September 30, 2010, the Fund received payment in full of a promissory note issued by Trulite, in the amount of $2.6 million, which included interest income of $0.3 million. The Fund also received a distribution from Equity Media Development Company of $1.0 million and received a principal payment of $0.1 million from Sovereign Business Forms, Inc. During the nine months ended September 30, 2010, the Fund also had investment activity of $1.3 million in several follow-on investments, including $0.5 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK). The following table includes significant investment activity during the nine months ended September 30, 2010 (in thousands):

	Investment Activity				
	New Investments		Existing Investments		
Portfolio Company	Cash	PIK	Follow-On	PIK	Total
London Bridge Entertainment Partners Ltd	$-	$-	$575	$148	$723
1848 Capital Partners LLC	-	-	-	219	219
Trulite, Inc.	-		200	-	200
Big Apple Entertainment Partners LLC	-	-	-	120	120
	$-	$-	$775	$487	$1,262

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Net unrealized depreciation on investments increased by $18.8 million during the nine months ended September 30, 2010, to a net unrealized depreciation of $34.0 million. Such increase in depreciation resulted primarily from the following changes:

(i) Decline in estimated fair market value of 1848 Capital Partners LLC ("1848") of $3.5 million. The management of 1848 has indicated that the company will have to raise outside capital to repay the promissory note due to the Fund upon maturity in January 2011. Due to the uncertainty of the recoverability of the promissory note, the Fund determined that the fair value of the promissory note was impaired. The promissory note is personally guaranteed jointly and severally by the principals of 1848, who also guarantee the Big Apple Entertainment Partners LLC and London Bridge Entertainment Partners Ltd promissory notes.

(ii) Decline in fair market value of Big Apple Entertainment Partners LLC ("Big Apple") of $1.0 million. Subsequent to September 30, 2010, the loan due from Big Apple matured and Big Apple failed to repay the note. Big Apple has been in payment default of the loan and on October 5, 2010, the Fund demanded that the guarantors pay and perform all obligations of Big Apple under the loan. The Fund is continuing discussions with the guarantors of this note and is contemplating the next prudent course of action.

(iii) Decline in fair market value of Equus Media Development Company, LLC ("EMDC") of $2.8 million. In June 2010, the Fund received a distribution of $1.0 million from EMDC. Currently, EMDC holds $1.6 million in cash and has a remaining funding commitment of $0.5 under its agreement with Kopleson Entertainment. In addition, if Kopleson Entertainment generates $0.2 million of income for EMDC, that event will trigger an additional $1.0 million funding obligation of EMDC. EMDC has written down the fair value of its assets.

(iv) Decline in fair market value of Infinia Corporation of $1.5 million. Infinia has informed the Fund of its significant capital and liquidity needs. Based on these factors, the nominal equity holdings of the Fund and the future potential dilution, the Fund has written down the investment to $0.

(v) Decline in fair market value of London Bridge Entertainment Partners Ltd ("London Bridge") of $2.6 million. London Bridge has experienced a working capital shortfall and required an additional $0.6 million investment from the Fund in July 2010 in the form of a 60-day promissory note. In September 2010, the Fund accelerated payment of its notes to London Bridge as the company was in payment default of both notes. Subsequent to quarter end, London Bridge paid the Fund $0.7 million which paid in full principal and interest of the 60-day note and partially paid previously unpaid and accrued interest of the $2.6 million note but did not cure the default related to this loan. Based on the current condition of London Bridge, the Fund determined the fair value of the $2.6 million loan was impaired. The loan is senior in liquidation preference and is guaranteed by the management principals, many of which guarantee the 1848 Capital Partners LLC and Big Apple Entertainment Partners LLC promissory notes. On August 31, 2010, Equus accelerated the maturity and demanded that the guarantors pay and perform all obligations of London Bridge under the April 2009 and July 2010 promissory notes. Subsequent to quarter end, the July 2010 note was repaid in full. As of the date of this filing, London Bridge remains in default of the April 2009 promissory note. The Fund is continuing discussions with the guarantors of this note and is contemplating the next prudent course of action.

(vi) Decline in fair market value of Riptide Entertainment, LLC ("Riptide") of $3.1 million. Riptide owns subordinated debt interest in both Big Apple Entertainment Partners LLC and London Bridge directly and through derivative entities and equity directly in London Bridge. The Fund has determined the value of these investments to be impaired based on the operating results and liquidity concerns of both companies.

(vii)

Decline in fair market value of ConGlobal Industries Holding, Inc. (“ConGlobal”) of $2.2 million. ConGlobal has experienced a decline in its storage business due to the increasing activity of shipping containers. While the activity has contributed to revenue through other services of the company, the contribution margin of these services is less than the storage revenue and has had a negative impact on its operating cash flow.

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(viii) Increase in fair market value of PalletOne, Inc. of $0.1 million. PalletOne, Inc. has continued to generate cash flows which have reduced debt levels. The Fund believes the performance of the company in recent years and its continued debt reduction initiatives has created value for its equity holdings.

(ix) Increase in fair market value of Sovereign Business Forms, Inc. ("Sovereign") of $0.3 million. Sovereign has continued to reduce its debt which has caused a corresponding increase to the value of the equity held by the Fund in Sovereign.

(x) Decline in fair market value of Spectrum Management, LLC ("Spectrum") of $2.6 million. Subsequent to the quarter-end, the Fund loaned Spectrum $0.4 million to meet its immediate working capital needs. The valuation reflects Spectrum's consistent business results coupled with the working capital shortfall the company recently experienced.

(xi) Increase in fair market value of Trulite, Inc. ("Trulite") of $0.1 million. The Fund holds approximately nine million warrants in Trulite, many with a nominal exercise price. Based on Trulite's recent equity raise and repayment of the Fund's debt, the Fund determined the warrants have increased in value.

During the nine months ended September 30, 2009, the Fund made follow-on investments of $1.6 million in several portfolio companies, including $0.9 million in the form of interest and dividends paid-in-kind or original issue discount/premium amortization.

The following table includes significant new and follow-on investments during the nine months ended September 30, 2009 (in thousands):

	New		Follow-On		
Portfolio Company	Cash	Noncash	Cash	Noncash	Total
Nickent Golf, Inc.	$—	$—	$370	$—	$370
Riptide Entertainment, LLC	—	—	350	—	350
1848 Capital Partners LLC	—	—	—	382	382
Trulite, Inc.	—	—	—	225	225
London Bridge Entertainment Partners Ltd	—	—	—	154	154
Big Apple Entertainment Partners LLC	—	—	—	114	114
	$—	$—	$720	$875	$1,595

During the nine months ended September 30, 2009, the Fund realized a net capital loss of $0.04 million from the sale of U. S. Treasury Bills.

Net unrealized depreciation on investments increased by $12.8 million during the nine months ended September 30, 2009, from a net unrealized depreciation of $3.0 million to a net unrealized depreciation of $15.8 million. Such decrease in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation, Sovereign Business Forms, Inc., Spectrum Management, Inc., and Metic Group plc, resulting primarily from decreases in operations for the period.

(7) Recent Accounting Pronouncements

Effective January 1, 2010, the Fund adopted changes issued by the FASB to add new requirements for disclosures about significant transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. In addition, the update clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The adoption of this standard had no impact on our financial position and results of operations.

In January 2010, the FASB issued changes to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes become effective for the Fund beginning January 1, 2011. Other than the additional disclosure requirements, the Fund does not anticipate that the adoption of this standard will have a material effect on our financial position and results of operations.

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(8) Subsequent Events

Management performed an evaluation of the Fund's events and transactions through the date the financial statements were available to be issued, noting the following subsequent events which have been considered in valuing the Fund's portfolio investments as of September 30, 2010:

On October 1, 2010, the Fund sold U.S. Treasury bills for $16.0 million and repaid the margin loan.

On October 1, 2010, the Fund invested $0.2 million in Spectrum Management, LLC, ("Spectrum") as a follow-on investment in the form of an $0.8 million, 16% promissory note facility. The note was funded to assist Spectrum in meeting immediate working capital requirements and matures on May 28, 2011.

On October 1, 2010, the Fund received $0.7 million in the form of principal and interest payments on the July 2010 promissory note and a partial payment of unpaid interest on the April 2009 promissory note from London Bridge Entertainment Partners, Ltd.

Since October 2, 2010, Big Apple Entertainment Partners LLC has been in payment default of the 18% promissory note dated April 2009, having a principal amount of $3.0 million. On October 5, 2010, the Fund demanded that the Guarantors pay and perform all obligations of Big Apple under the April 2009 note.

On October 18, 2010, the Fund received $0.07 million in the form of principal payment on the 16% promissory note from Sovereign Business Forms, Inc.

On October 20, 2010, the Fund agreed to forbear from exercising certain of its rights and remedies under both the Big Apple and London Bridge promissory notes for a period from receipt of an initial Forbearance Fee of $0.03 million ending on the earlier of (a) October 22, 2010 or (b) November 5, 2010, in the event Big Apple, London Bridge or the guarantors elect to extend the forbearance period by providing the Fund with written notice together with a fee in the amount of $0.03 million (the option forbearance fee) prior to October 22, 2010. The Fund received the initial forbearance fee from Big Apple on October 20, 2010 and from London Bridge on October 22, 2010. The Fund received option forbearance fees from London Bridge on October 29, 2010 and from Big Apple on November 3, 2010. The forbearance periods ended on November 5, 2010 for the Big Apple and London Bridge notes which continue to be in default. The Fund is continuing discussions with the Guarantors of these notes and is contemplating the next prudent course of action.

On November 1, 2010, the Fund invested $0.2 million in Spectrum as a follow-on investment under the $0.8 million 16% promissory note facility.

On November 1, 2010, the Fund announced that its Board of Directors had approved the terms of a non-transferable rights offering to the Fund's shareholders to purchase shares of its common stock. The Fund intends to issue 1,772,329 new shares of its common stock pursuant to the exercise of rights, such that each record date holder shall be entitled to purchase one share of common stock for every five shares held on such date. On November 2, 2010, the Fund filed a registration statement with the Securities and Exchange Commission in connection with the offering which includes a prospectus describing the offering and contains additional information about the Fund.

On November 8, 2010, the Fund received $0.3 million in the form of principal payment on the 16% promissory note from Sovereign Business Forms, Inc.

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

Overview

The Fund 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's investment strategy is a total return investment objective. This objective 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 that is privately owned. 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 or other equity-related instruments received in connection with the financing.

The Fund did not make any new investments other than follow-on investments during the nine months ended September 30, 2010 and September 30, 2009.

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.

Most of the Fund's portfolio companies utilize leverage, and such leverage magnifies the volatility of returns on the company's equity and, consequently, its value to the Fund. For example, if a portfolio company has a total enterprise value of $10.0 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 $12.0 million or $8.0 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. While management attempts to reduce overall volatility by employing a total return investing style, management also understands and accepts the volatility associated with these equity investments prior to its initial investment many portfolio companies have undertaken debt reduction initiatives which could, if successful, assist in reducing equity volatility risks.

On June 12, 2009, the Fund and its Board of Directors announced plans to "internalize" Fund management. The Fund's investment advisory agreement with MCCA was terminated June 30, 2009. The Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations.

The Fund derives its cash flow from interest and dividends received and sales of securities from its investment portfolio. The Fund pays certain general and administrative fees 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 utilizes leverage to provide the required funds, and the leverage is then repaid from the sale of portfolio securities.

Since the Fund is a closed-end business development company, stockholders do not have the right to present their shares to the Fund for redemption. Because the Fund shares continue to trade at a discount, the Board of Directors has determined that it would be in the best interest of the Fund's stockholders for the Fund to be authorized to attempt to reduce or eliminate the market value discount from net asset value. Accordingly, from time to time the Fund may, but is not required to, repurchase its shares (including by means of tender offers) to attempt to reduce or eliminate the discount or to increase the net asset value of those shares.

Significant Developments

The Board and management continue to believe that current market conditions and recent portfolio performance dictate the need to pursue a more active role in the management of these investments and to seek liquidity events at the appropriate time to protect and enhance shareholder value. These activities include continuous monitoring and intensive reviews of portfolio company performance and expectations, providing follow-on capital when necessary, exploration of liquidity events for certain portfolio companies to position the Fund to maximize investment returns, and actively pursuing suitable new investments for the Fund.

During 2009, the Fund executed a management internalization strategy initiated to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and is continuing to provide enhanced communication with shareholders. The Fund believes these actions are necessary to protect capital and liquidity in order to preserve and enhance shareholder value. In addition, management is currently seeking new investments for future growth.

The Fund has been successful in lowering net expenses, but incurred $0.9 million in costs related to the 2010 Annual Shareholder Meeting and resulting proxy contest. Without the proxy contest related expenses, net investment income for the nine months ending September 30, 2010 would have been $0.3 million, or an increase of $0.3 million compared to the nine months ending September 30, 2009.

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On July 1, 2010, the Fund made a follow-on investment in London Bridge Entertainment Partners, Ltd. in the form of a 60 day, short-term note. Since August 31, 2010, London Bridge has been in payment default of the April 2009 promissory note and the July 2010 promissory note, in the principal amount of $2.5 million and $0.6 million respectively, at an accrued interest rate of 18% annually.

On August 31, 2010, Equus accelerated the maturity and demanded that the guarantors pay and perform all obligations of London Bridge under the April 2009 and July 2010 promissory notes. Subsequent to quarter end, the July 2010 note was repaid in full. As of the date of this filing, London Bridge remains in default of the April 2009 promissory note. The Fund is continuing discussions with the guarantors of this note and is contemplating the next prudent course of action.

Subsequent to quarter-end, the Big Apple promissory note matured and Big Apple has failed to repay the note. The Fund is continuing discussions with the guarantors of this note and is contemplating the next prudent course of action.

On November 1, 2010, the Fund invested $0.2 million in Spectrum as a follow-on investment under the $0.8 million 16% promissory note facility.

On November 1, 2010, the Fund announced that its Board of Directors had approved the terms of a non-transferable rights offering to the Fund's shareholders to purchase shares of its common stock. The Fund intends to issue 1,772,329 new shares of its common stock pursuant to the exercise of rights, such that each record date holder shall be entitled to purchase one share of common stock for every five shares held on such date. On November 2, 2010, the Fund filed a registration statement with the Securities and Exchange Commission in connection with the offering which includes a prospectus describing the offering and contains additional information about the Fund.

On November 8, 2010, the Fund received $0.3 million in the form of principal payment on the 16% promissory note from Sovereign Business Forms, Inc.

Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with 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. Although management believes the estimates and assumptions used in preparing these interim financial statements and related notes are reasonable in light of known facts and circumstances, 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 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 generally valued at their quoted market price at the close of business on the valuation date.

Privately-held portfolio securities—The fair value of investments for which no market exists is determined on the basis of procedures established in good faith by 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 estimated values arrived at by the Fund 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. Preliminary appraised values are determined quarterly by management. The Audit Committee of the Board of Directors may engage independent, third-party valuation firms to conduct independent appraisals and review management's preliminary valuations in order to make their own independent assessment of each privately-held investment that the Fund (a) has held for more than one year and (b) holds on its books at a fair value of at least $2.0 million. Any third-party valuation data would be considered as one of many factors in a fair value determination. The Audit Committee then would recommend the fair values for all privately-held securities based on all relevant factors to the Board of Directors for final approval.

Most of the Fund’s common equity investments of privately held companies are appraised either at a multiple of EBITDA generated by the company in its most recent fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock, utilizing a discounted cash flow model which incorporates projected future cash flows of the company, or alternative methodology including the Black-Scholes Option Pricing Model. Projections of current year and future period cash flows may be utilized and adjustments for non-recurring items are considered. EBITDA multiples and discount rates utilized are estimated based on current market conditions and past experience in the private company marketplace, and are necessarily subjective in nature. In addition, the Fund will apply appropriate liquidity and other discounts to equity valuations where applicable.

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.

For valuation purposes, the Fund uses the income approach to value its debt instruments. Since the Fund’s general intent is to hold its loans to maturity, the fair value will not exceed the cost of the investment. A change in the assumptions the Fund uses to estimate fair value of debt securities using the yield analysis could have a material impact on the determination of fair value. If credit quality deteriorates or a debt security is in workout status, the Fund may consider other factors in determining the fair value of the debt security, including the fair value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would be received in an orderly or forced liquidation.

From time to time, portfolio companies will default on certain covenants in loan agreements. When management 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 interest payments on such indebtedness; is not successful in refinancing the debt upon its maturity; Fund management believes the credit quality of a loan has deteriorated from changes in the business, underlying asset or market conditions and the company may not have the ability to meet future obligations; or the investment may be reduced or eliminated through foreclosure on the portfolio company’s assets or the portfolio company’s reorganization or bankruptcy; the Fund may consider alternative methodology in determining the fair value of the debt security. These methodologies include the fair value attributable to the debt security from the enterprise value of the portfolio company or an asset based approach including an analysis of the possible proceeds received in an orderly or forced liquidation.

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 $21.4 million and $42.4 million as of September 30, 2010 and December 31, 2009, respectively, the Fund’s fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. There were no publicly traded securities as of September 30, 2010 and December 31, 2009.

On a daily basis, the Fund adjusts its net asset value for the changes in the value of its publicly held securities, if applicable, and material changes in the value of its private securities, generally determined on a quarterly basis or as announced in a press release, and reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including Barron's and The Wall Street Journal.

Federal Income Taxes

The Fund intends to comply with the requirements of the Code necessary for us to qualify as a RIC. So long as it complies with these requirements, the Fund generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. Therefore, the Fund did not record a provision for federal income taxes in its financial statements. The Fund may borrow money from time to time to maintain its status as a RIC under the Code.

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Interest Income Recognition

The Fund records interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that it expects to collect such amounts. The Fund stops accruing interest on investments when it determines that interest is no longer collectible. If the Fund receives any cash after determining that interest is no longer collectible, it treats such cash as payment on the principal balance until the entire principal balance has been repaid, before it recognizes any additional interest income. The Fund accretes or amortizes discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities.

Payment in Kind Interest

The Fund has loans in its portfolio that may pay payment in kind (“PIK”) interest. The Fund adds PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain its status as a RIC, the Fund must pay out to stockholders this non-cash source of income in the form of dividends even if it has not yet collected any cash in respect of such investments.

Current Market Conditions

Overall economic conditions have improved slightly through 2010 as the US economy has expanded slightly. However, the economic recovery has been hampered by persistent high unemployment levels and lingering problems in the housing market. Further, the banking industry continues to experience additional bank failures as regulators continue to impose strict capital requirements. Additionally, future economic expansion is threatened by perceptions of higher taxes and healthcare costs, as well as the high levels of government deficit spending.

Market conditions for business transactions including mergers and acquisitions and private equity investments have begun to improve slightly through 2010 as low interest rates have reduced capital costs and buyer and seller expectations have converged. These conditions were contributors to an upturn in transaction volume in the first half of the year since declining significantly in 2009. In addition corporations have been deleveraging and are holding significant amounts of cash and private equity firms have access to large capital reserves as private equity deal flow has been lower than anticipated for nearly two years and fund raising was robust heading into the economic downturn.

Consistent with other companies in the financial services sector, the Fund’s performance was adversely affected during the economic downturn. Between December 31, 2008 and September 30, 2010, the net asset value of the Fund declined from $9.16 per share to $3.55 per share. Based on the closing price of the Fund’s shares on September 30, 2010, the Fund’s common stock is trading at a 33.1% discount to its net asset value.

Liquidity and Capital Resources

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 nine months ended September 30, 2010 and 2009, 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 may also have the ability to borrow funds and issue forms of senior securities representing indebtedness or stock, such as preferred stock, subject to certain restrictions. Net taxable investment income and net taxable realized gains from the sales of portfolio investments are intended to be distributed at least annually, to the extent such amounts are not reserved for payment of expenses and contingencies or to make follow-on or new investments.

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

Management is continually evaluating the impact of current market conditions on its portfolio company valuations and their ability to provide current income. Management has applied valuation techniques in a manner it believes is reasonable given the current market conditions. The Fund believes that its operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Results of Operations

Investment Income and Expense

Net investment income (loss) after all expenses was ($0.6) million and $0.02 million for the nine months ended September 30, 2010 and September 30, 2009, respectively and $0.08 million and $0.4 million for the three months ended September 30, 2010 and September 30, 2009, respectively. The increase in net investment loss generated at September 30, 2010 compared to September 30, 2009 is due primarily to the decline in investment income from portfolio investments along with an increase in professional fees and mailing and printing expenses associated with a proxy contest the Fund encountered for the Annual Shareholder meeting held in May 2010.

Total income from portfolio securities declined to $2.3 million for the nine months ended September 30, 2010 from $2.9 million for the nine months ended September 30, 2009 and to $0.6 million for the three months ended September 30, 2010 from $1.3 million for the three months ended September 30, 2009. This decrease was largely due to the restructuring of our holding in ConGlobal Industries Holding, Inc. in the third quarter 2009, resulting in the recognition of additional accrued interest for the period.

During the first six months of 2009, the Fund’s former investment adviser received management fee compensation at an annual rate of 2% of the net assets of the Fund paid quarterly in arrears. Such fees amounted to $0.7 million for the six months ended June 30, 2009. The Fund also reimbursed Equus Capital Administration Company, Inc. (“ECAC”) its former administrator, for the costs and expenses incurred in performing its obligations and providing personnel and facilities under the Fund’s Administration Agreement with ECAC, provided that such reimbursements did not exceed $450,000 per year. ECAC received $0.2 million for the six months ended June 30, 2009. As a result of the internalization management, the Fund assumed these obligations directly beginning July 1, 2009.

Professional fees increased to $1.3 million for the nine months ended September 30, 2010 from $1.0 million for the nine months ended September 30, 2009. These increases were due to the increase in legal fees of $0.4 million and solicitation costs of $0.2 million associated with the Fund’s Annual Shareholder Meeting held in May 2010 and resulting proxy contest. Professional fees declined to $0.1 million for the three months ended September 30, 2010 from $0.4 million for the three months ended September 30, 2009.

Compensation expense was $0.8 million and $0.3 million for the nine months ended September 30, 2010 and September 30, 2009, respectively and remained relatively unchanged for the three months ended September 30, 2010 and September 30, 2009, respectively. The increase in compensation expense generated at September 30, 2010 is due to the internalization of management as of June 30, 2009. Accordingly, the Fund paid no compensation prior to the quarter ending September 30, 2009.

Realized Gains and Losses on Sales of Portfolio Securities

During the nine months ended September 30, 2010, the Fund realized net capital losses of $0.01 million from the sale of U.S. Treasury Bills.

During the three months ended September 30, 2010, the Fund realized net capital losses of $0.001 million from the sale of U.S. Treasury Bills.

During the nine months ended September 30, 2009, the Fund realized a net capital loss of $0.04 million from the sale of U. S. Treasury Bills.

During the three months ended September 30, 2009, the Fund realized net capital losses of $0.01 million from the sale of U.S. Treasury Bills.

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Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Net unrealized depreciation on investments increased by $18.8 million during the nine months ended September 30, 2010, to a net unrealized depreciation of $34.0 million. Such increase in depreciation resulted primarily from the following changes:

i) Decline in estimated fair market value of 1848 Capital Partners LLC ("1848") of $3.5 million. The management of 1848 has indicated that the company will have to raise outside capital to repay the promissory note due to the Fund upon maturity in January 2011. Due to the uncertainty of the recoverability of the promissory note, the Fund determined that the fair value of the promissory note was impaired. The promissory note is personally guaranteed jointly and severally by the principals of 1848, who also guarantee the Big Apple Entertainment Partners LLC and London Bridge Entertainment Partners Ltd promissory notes.

(ii) Decline in fair market value of Big Apple Entertainment Partners LLC ("Big Apple") of $1.0 million. Subsequent to September 30, 2010, the loan due from Big Apple matured and Big Apple failed to repay the note. Big Apple has been in payment default of the loan and on October 5, 2010, the Fund demanded that the guarantors pay and perform all obligations of Big Apple under the loan. The Fund is continuing discussions with the guarantors of this note and is contemplating the next prudent course of action.

(iii) Decline in fair market value of Equus Media Development Company, LLC ("EMDC") of $2.8 million. In June 2010, the Fund received a distribution of $1.0 million from EMDC. Currently, EMDC holds $1.6 million in cash and has a remaining funding commitment of $0.5 under its agreement with Kopleson Entertainment. In addition, if Kopleson Entertainment generates $0.2 million of income for EMDC, that event will trigger an additional $1.0 million funding obligation of EMDC. EMDC has written down the fair value of its assets.

(iv) Decline in fair market value of Infinia Corporation of $1.5 million. Infinia has informed the Fund of its significant capital and liquidity needs. Based on these factors, the nominal equity holdings of the Fund and the future potential dilution, the Fund has written down the investment to $0.

(v) Decline in fair market value of London Bridge Entertainment Partners Ltd ("London Bridge") of $2.6 million. London Bridge has experienced a working capital shortfall and required an additional $0.6 million investment from the Fund in July 2010 in the form of a 60-day promissory note. In September 2010, the Fund accelerated payment of its notes to London Bridge as the company was in payment default of both notes. Subsequent to quarter end, London Bridge paid the Fund $0.7 million which paid in full principal and interest of the 60-day note and partially paid previously unpaid and accrued interest of the $2.6 million note but did not cure the default related to this loan. Based on the current condition of London Bridge, the Fund determined the fair value of the $2.6 million loan was impaired. The loan is senior in liquidation preference and is guaranteed by the management principals, many of which guarantee the 1848 Capital Partners LLC and Big Apple Entertainment Partners LLC promissory notes. On August 31, 2010, Equus accelerated the maturity and demanded that the guarantors pay and perform all obligations of London Bridge under the April 2009 and July 2010 promissory notes. Subsequent to quarter end, the July 2010 note was repaid in full. As of the date of this filing, London Bridge remains in default of the April 2009 promissory note. The Fund is continuing discussions with the guarantors of this note and is contemplating the next prudent course of action.

(vi) Decline in fair market value of Riptide Entertainment, LLC ("Riptide") of $3.1 million. Riptide owns subordinated debt interest in both Big Apple Entertainment Partners LLC and London Bridge directly and through derivative entities and equity directly in London Bridge. The Fund has determined the value of these investments to be impaired based on the operating results and liquidity concerns of both companies.

(vii) Decline in fair market value of ConGlobal Industries Holding, Inc. ("ConGlobal") of $2.2 million. ConGlobal has experienced a decline in its storage business due to the increasing activity of shipping containers. While the activity has contributed to revenue through other services of the company, the contribution margin of these services is less than the storage revenue and has had a negative impact on its operating cash flow.

(viii) Increase in fair market value of PalletOne, Inc. of $0.1 million. PalletOne, Inc. has continued to generate cash flows which have reduced debt levels. The Fund believes the performance of the company in recent years and its continued debt reduction initiatives has created value for its equity holdings.

(ix) Increase in fair market value of Sovereign Business Forms, Inc. ("Sovereign") of $0.3 million. Sovereign has continued to reduce its debt which has caused a corresponding increase to the value of the equity held by the Fund in Sovereign.

(x) Decline in fair market value of Spectrum Management, LLC ("Spectrum") of $2.6 million. Subsequent to the quarter-end, the Fund loaned Spectrum $0.4 million to meet its immediate working capital needs. The valuation reflects Spectrum's consistent business results coupled with the working capital shortfall the company recently experienced.

(xi) Increase in fair market value of Trulite, Inc. ("Trulite") of $0.1 million. The Fund holds approximately nine million warrants in Trulite, many with a nominal exercise price. Based on Trulite's recent equity raise and repayment of the Fund's debt, the Fund determined the warrants have increased in value.

Net unrealized depreciation on investments increased by $12.8 million during the nine months ended September 30, 2009, from a net unrealized depreciation of $3.0 million to a net unrealized depreciation of $15.8 million. Such decrease in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation, Sovereign Business Forms, Inc., Spectrum Management, Inc., and Metic Group plc, resulting primarily from decreases in operations for the period.

Dividends

On February 27, 2009, the Fund announced the declaration of a first quarter dividend of $0.1075 per share. The Fund issued 296,528 additional shares of its common stock at an effective price of $3.10 per share and paid $2,000 in cash for fractional shares. This dividend was 100% qualified and classified as 21% ordinary income and 79% return of capital.

On March 24, 2009, the Fund announced that it suspended its managed distribution policy and payment of quarterly distributions for an indefinite period, following the distribution of the first quarter dividend, paid on March 30, 2009. The Fund will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the Investment Company Act of 1940.

Portfolio Investments

During the nine months ended September 30, 2010, the Fund received payment in full of a promissory note issued by Trulite, in the amount of $2.6 million, which included interest income of $0.3 million. The Fund also received a distribution from Equity Media Development Company of $1.0 million and received a principal payment of $0.1 million from Sovereign Business Forms, Inc. During the nine months ended September 30, 2010, the Fund also had investment activity of $1.3 million in several follow-on investments, including $0.5 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK).

The following table includes significant investment activity during the nine months ended September 30, 2010 (in thousands):

	Investment Activity				
	New Investments		Existing Investments		
Portfolio Company	Cash	PIK	Follow-On	PIK	Total
London Bridge Entertainment Partners Ltd	$-	$-	$575	$148	$723
1848 Capital Partners LLC	-	-	-	219	219
Trulite, Inc.	-	-	200	-	200
Big Apple Entertainment Partners LLC	-	-	-	120	120
	$-	$-	$775	$487	$1,262

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During the nine months ended September 30, 2009, the Fund made follow-on investments of $1.6 million in several portfolio companies, including $0.9 million in the form of interest and dividends paid-in-kind or original issue discount/premium amortization.

The following table includes significant new and follow-on investments during the nine months ended September 30, 2009 (in thousands):

	New		Follow-On		
Portfolio Company	Cash	Noncash	Cash	Noncash	Total
Nickent Golf, Inc.	$—	$—	$370	$—	$370
Riptide Entertainment, LLC	—	—	350	—	350
1848 Capital Partners LLC	—	—	—	382	382
Trulite, Inc.	—	—	—	225	225
London Bridge Entertainment Partners Ltd	—	—	—	154	154
Big Apple Entertainment Partners LLC	—	—	—	114	114
	$—	$—	$720	$875	$1,595

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.

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 issuer. The value of one segment called Shipping Products and Services includes two portfolio companies and was 19.2% of the net asset value and 28.3% of the Fund’s investments in portfolio company securities (at fair value) at September 30, 2010. 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 Executive Chairman and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Fund's management, with the participation of the Fund's Executive Chairman and Chief Financial Officer, have evaluated the effectiveness of the design and operations of the Fund's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2010. Based on their evaluation, the Fund's Executive Chairman (Principal Executive Officer) and Chief Financial Officer concluded that the Fund's disclosure controls and procedures were effective at a reasonable assurance level. There has been no change in the Fund's internal control over financial reporting during the quarter ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On June 30, 2009, the Fund received a "Wells" notice from the staff of the Securities and Exchange Commission ("SEC"). Based on discussions with the SEC staff, the Fund believes that the issues the staff intends to pursue relate to a one-time administrative fee that the Fund paid in 2005 and the compensation of a certain Fund officer during approximately the same time period. The Wells notice notified the Fund that the staff intends to recommend that the SEC bring a civil action against the Fund for possible violations of the securities laws. The Fund has been cooperating with the SEC in this inquiry. In accordance with SEC procedures, the Fund has presented its perspective on these issues to the staff. The SEC has not made a formal decision regarding an enforcement proceeding. The Fund also understands that three persons (two of whom are formerly associated with the Fund and the Fund's former investment adviser) received similar Wells notices relating to the 2005 activity. The Fund understands that these individuals also will have an opportunity to present their perspectives on these issues before any formal decision is made on enforcement proceedings.

On March 10, 2010, American General Life Insurance Company ("American General") filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees in excess of $375,000. Because we believe that the complaint is without merit, we intend to defend the matter vigorously.

On April 26, 2010, the SEC also subpoenaed records of the Fund in connection with certain trades in the Fund's shares by SPQR Capital LLP, SAE Capital Ltd., Versatile Systems Inc., Mobiquity Investments Limited, and anyone associated with those entities. The Fund has fully cooperated with the SEC's request.

On June 30, 2009, the Fund received a "Wells" notice from the staff of the Securities and Exchange Commission ("SEC"). Based on discussions with the SEC staff, the Fund believes that the issues the staff intends to pursue relate to a one-time administrative fee that the Fund paid in 2005 and the compensation of a certain Fund officer during approximately the same time period. The Wells notice notified the Fund that the staff intends to recommend that the SEC bring a civil action against the Fund for possible violations of the securities laws. The Fund has been cooperating with the SEC in this inquiry. In accordance with SEC procedures, the Fund has presented its perspective on these issues to the staff. The SEC has not made a formal decision regarding an enforcement proceeding. The Fund also understands that three persons (two of whom are formerly associated with the Fund and the Fund's former investment adviser) received similar Wells notices relating to the 2005 activity. The Fund understands that these individuals also will have an opportunity to present their perspectives on these issues before any formal decision is made on enforcement proceedings.

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

Item 1A. Risk Factors

On November 2, 2010, the Fund filed a registration statement on Form N-2 (“Registration Statement”) with the Securities and Exchange Commission in connection with the offering of non-transferable rights to its shareholders. The Registration Statement identifies various risks affecting the Fund in connection with the rights offering and risks affecting the Fund in general.

Readers should carefully consider these risks and all other information contained in the Registration Statement, including the Fund’s consolidated financial statements and the related notes thereto. The risks and uncertainties described therein are not the only ones facing the Fund. Additional risks and uncertainties not presently known to the Fund, or not presently deemed material by the Fund, may also impair its operations and performance.

There have been no material changes in the Fund’s risk factors from the disclosure set forth in the Annual Report on Form 10-K for the year ended December 31, 2009.

Readers should carefully consider these risks and all other information contained in the annual report on Form 10-K, including the Fund’s consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing the Fund. Additional risks and uncertainties not presently known to the Fund, or not presently deemed material by the Fund, may also impair its operations and performance.

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Item 6. Exhibits

3. Articles of Incorporation and by-laws

(a) Restated Certificate of Incorporation of the Fund, as amended. [Incorporated by reference to Exhibit 3(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.]

(b) Certificate of Merger dated June 30, 1993, between the Fund and Equus Investments Incorporated [Incorporated by reference to Exhibit 3(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.]

(c) Amended and Restated Bylaws of the Fund. [Incorporated by reference to Exhibit 3(b) to Registrant's Current Report on Form 8-K filed on June 9, 2010]

10. Material Contracts.

(c) Safekeeping Agreement between the Fund and Amegy Bank dated August 16, 2008. [Incorporated by reference to Exhibit 10(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.]

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

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

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

1. Certification by Principal Executive Officer

2. Certification by Chief Financial Officer

32. Section 1350 Certifications

1. Certification by Principal Executive Officer

2. Certification by Chief Financial Officer

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SIGNATURE

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

	EQUUS TOTAL RETURN, INC.	
Date: November 10, 2010	By:	/s/ John A. Hardy John A. Hardy Executive Chairman

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