

EQUUS TOTAL RETURN, INC.
Form 10-Q
August 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period to

Commission File Number 814-00098

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0345915 (I.R.S. Employer Identification No.)
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700 Louisiana St., 48th Floor

Houston, Texas (Address of principal executive offices)	77002 (Zip Code)
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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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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 Smaller Reporting Company

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

There were 12,673,646 shares of the registrant's common stock, \$.001 par value, outstanding, as of August 12, 2015.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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EQUUS TOTAL RETURN, INC.BALANCE SHEETS(Unaudited)**Part I. Financial Information****Item 1. Financial Statements**

	June 30, 2015	December 31, 2014
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$10,050 and \$16,058 respectively)	\$8,715	\$13,173
Affiliate investments (cost at \$350 and \$350 respectively)	5,627	960
Non-affiliate investments - related party (cost at \$5,815 and \$5,706 respectively)	4,243	3,981
Non-affiliate investments (cost at \$915 and \$1,097 respectively)	915	1,532
Total investments in portfolio securities at fair value	19,500	19,646
Cash and cash equivalents	17,977	15,697
Restricted cash and temporary cash investments	—	15,149
Accounts receivable from investments	614	614
Accrued interest receivable	62	764
Accrued dividend receivable	—	54
Accounts receivable and other	169	114
Total assets	38,322	52,038
Liabilities and net assets		
Accounts payable and accrued liabilities	87	664
Accounts payable to related parties	250	174
Borrowing under margin account	—	14,999
Total liabilities	337	15,837
Commitments and contingencies (see Note 2)		
Net assets	\$37,985	\$36,201
Net assets consist of:		
Common stock, par value	\$13	\$13
Capital in excess of par value	54,227	56,049
Undistributed net investment losses	(18,625)	(16,956)
Undistributed net capital gains	—	660
Unrealized appreciation (depreciation) of portfolio securities, net	3,942	(1,840)

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Unrealized depreciation of portfolio securities - related party, net	(1,572)	(1,725)
Total net assets	\$37,985	\$36,201
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	12,674	12,674
Shares of preferred stock issued and outstanding, \$.001 par value, 5,000 shares authorized	—	—
Net asset value per share	\$3.00	\$2.86

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

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EQUUS TOTAL RETURN, INC.STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Investment income:				
Interest and dividend income:				
Control investments	\$—	\$—	\$—	\$198
Non-affiliate investments - related party	55	—	55	—
Non-affiliate investments	32	64	76	122
Total interest and dividend income	87	64	131	320
Interest from temporary cash investments	2	—	2	—
Total investment income	89	64	133	320
Expenses:				
Professional fees	109	237	436	528
Compensation expense	239	225	863	437
Director fees and expenses	116	161	211	257
General and administrative expense	135	69	176	169
Mailing, printing and other expenses	66	77	89	98
Taxes	18	8	25	14
Interest expense	—	—	1	—
Total expenses	683	777	1,801	1,503
Net investment loss	(594)	(713)	(1,668)	(1,183)
Net realized gain (loss):				
Control investments	—	—	(2,850)	—
Non-affiliate investments	—	660	372	660
Temporary cash investments	—	—	(5)	—
Net realized gain (loss)	—	660	(2,483)	660
Net unrealized appreciation (depreciation) of portfolio securities:				
End of period	3,942	(2,502)	3,942	(2,502)
Beginning of period	1,023	(4,024)	(1,840)	(3,956)
Net change in unrealized appreciation (depreciation) of portfolio securities	2,919	1,522	5,782	1,454
Net unrealized depreciation of portfolio securities - related party:				
End of period	(1,572)	(458)	(1,572)	(458)
Beginning of period	(1,870)	—	(1,725)	—
Net change in unrealized depreciation of portfolio securities - related party	298	(458)	153	(458)
Net increase in net assets resulting from operations	\$2,623	\$1,011	\$1,784	\$473

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Net increase in net assets resulting from operations per share:

Basic and diluted	\$0.21	\$0.09	\$0.14	\$0.04
Weighted average shares outstanding:				
Basic and diluted	12,674	11,676	12,674	11,122

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)	Six months ended June 30,	
	2015	2014
Net increase in net assets resulting from operations	\$1,784	\$473
Shares issued for portfolio securities - related party	—	4,351
Increase in net assets	1,784	4,824
Net assets at beginning of period	36,201	33,217
Net assets at end of period	\$37,985	\$38,041

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

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EQUUS TOTAL RETURN, INC.STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30,	
(in thousands)	2015	2014
Reconciliation of increase in net assets resulting from operations to net cash provided by operating activities:		
Net increase in net assets resulting from operations	\$1,784	\$473
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Net realized loss (gain)	2,483	(660)
Net change in unrealized appreciation (depreciation) of portfolio securities	(5,782)	(458)
Net change in unrealized depreciation of portfolio securities - related party	(153)	(538)
Changes in operating assets and liabilities:		
Purchase of portfolio securities	—	(647)
Net proceeds from dispositions of portfolio securities	372	62
Principal payments received from portfolio securities	4,255	—
Sales of temporary cash investments, net	15,144	15,149
Increase in accounts receivable from investments	—	(202)
(Increase) decrease in accrued interest receivable	(268)	4
Increase in accounts receivable and other	(55)	(280)
(Decrease) increase in accounts payable and accrued liabilities	(577)	194
Increase in accounts payable to related parties	76	36
Net cash provided by operating activities	17,279	13,133
Cash flows from financing activities:		
Repayments under margin account	(14,999)	(15,000)
Net cash used in financing activities	(14,999)	(15,000)
Net increase (decrease) in cash and cash equivalents	2,280	(1,867)
Cash and cash equivalents at beginning of period	15,697	19,065
Cash and cash equivalents at end of period	\$17,977	\$17,198
Non-cash operating and financing activities:		
Shares issued in lieu of cash for portfolio securities	\$—	\$4,351
Accrued interest or dividends exchanged for portfolio securities	\$915	\$117
Accrued interest or dividends exchanged for portfolio securities - related party	\$110	\$—
Supplemental disclosure of cash flow information:		
Interest paid	\$1	\$—
Income taxes paid	\$22	\$11

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)

	Six months ended June 30,	
	2015	2014
Investment income	\$0.01	\$0.03
Expenses	0.14	(0.14)
Net investment loss	(0.13)	(0.11)
Net realized (loss) gain	(0.20)	0.06
Net change in unrealized depreciation	0.46	0.13
Net change in unrealized depreciation - related party	0.01	(0.04)
Net increase in net assets from operations	0.14	0.04
Capital transactions:		
Shares issued for portfolio securities	—	0.39
Dilutive effect of shares issued	—	(0.57)
Decrease in net assets resulting from capital transactions	—	(0.18)
Net increase (decrease) in net assets	0.14	(0.14)
Net assets at beginning of period	2.86	3.14
Net assets at end of period, basic and diluted	\$3.00	\$3.00
Weighted average number of shares outstanding during period, in thousands	12,674	11,122
Market price per share:		
Beginning of period	\$2.10	\$1.92
End of period	\$1.90	\$2.48
Selected information and ratios:		
Ratio of expenses to average net assets	4.86 %	4.56 %
Ratio of net investment loss to average net assets	(4.50 %)	(3.58 %)
Ratio of net increase in net assets resulting from operations to average net assets	4.81 %	1.30 %
Total return on market price ⁽¹⁾	(9.52 %)	29.17 %

⁽¹⁾ Total return = [(ending market price per share - beginning price per share) / beginning market price per share].

The accompanying notes are an integral part of these financial statement

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EQUUS TOTAL RETURN, INC.**SCHEDULE OF INVESTMENTS****JUNE 30, 2015****(Unaudited)*****(in thousands, except share data)***

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value ⁽¹⁾
Control Investments: Majority-owned (3):						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)	\$	7,050	\$ 8,500
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	215
Total Control Investments: Majority-owned (represents 44.7% of total investments at fair value)				\$	10,050	\$ 8,715
Affiliate Investments ⁽⁴⁾ :						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.8%)	\$	350	\$ 5,627
Total Affiliate Investments (represents 28.8% of total investments at fair value)				\$	350	\$ 5,627
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	September 2014	415,946 shares of common stock (1.7%) ⁽⁵⁾	\$	5,815	\$ 4,243
Total Non-Affiliate Investments - Related Party (represents 21.8% of total investments at fair value)				\$	5,815	\$ 4,243
Non-Affiliate Investments (less than 5% owned):						
5 TH Element Tracking LLC Boston, MA	Business products and services	January 2015	14% promissory note due 1/16 ⁽²⁾	\$	915	915
Total Non-Affiliate Investments (represents 4.7% of total investments at fair value)				\$	915	\$ 915
Total Investment in Portfolio Securities				\$	17,130	\$ 19,500

(1) See Note 3 to the financial statements, Valuation of Investments.

(2) Income-producing.

- (3) Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which we own more than 50% of the voting securities of the company.
- (4) Affiliate investments are generally defined under the Investment Company Act of 1940 as companies in which we own at least 5% but not more than 25% voting securities of the company.
- (5) Pursuant to a Share Exchange Agreement between the Fund and MVC dated May 14, 2014, MVC has the right to rescind the Agreement and cancel the Share Exchange if Equus does not complete a “reorganization” (as defined under Section 2(a)(33) of the 1940 Act) within a 90-day period following the 1-year anniversary date of the Agreement.

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

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EQUUS TOTAL RETURN, INC.**SCHEDULE OF INVESTMENTS – (Continued)****JUNE 30, 2015****(Unaudited)**

Except for our holding of shares of MVC Capital, Inc. (“MVC”), substantially all of our portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933 (hereafter, the “Securities Act”) or other relevant foreign regulatory authority. We negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

We may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the Investment Company Act of 1940 (hereafter, the “1940 Act”). Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of June 30, 2015, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 44.7% of the total value of the investments in portfolio securities as of June 30, 2015.

Our investments in portfolio securities consist of the following types of securities as of June 30, 2015 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as	
			Percentage of	
			<u>Net Assets</u>	
Limited liability company investments	\$10,050	\$8,715	22.9	%
Common stock	6,165	9,870	26.0	%
Secured and subordinated debt	915	915	2.4	%
Total	\$17,130	\$19,500	51.3	%

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The following is a summary by industry of the Fund's investments in portfolio securities as of June 30, 2015 (in thousands):

Industry	Fair Value	Fair Value as	
		Percentage of	
		<u>Net Assets</u>	
Energy	\$8,500	22.4	%
Financial services	4,243	11.2	%
Shipping products and services	5,627	14.8	%
Business products and services	915	2.4	%
Media	215	0.5	%
Total	\$19,500	51.3	%

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

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EQUUS TOTAL RETURN, INC.**SCHEDULE OF INVESTMENTS****DECEMBER 31, 2014****(Unaudited)***(in thousands, except share data)*

Name and Location of Portfolio Company Control	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value⁽¹⁾
Investments: Majority-owned (4):						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)	\$	7,050	\$ 9,800
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	215
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (92.1%/82.5% fully diluted) 16% subordinated promissory note due 11/11 \$ (3)	3,158	3,158	3,158
Total Control Investments: Majority-owned (represents 38.0% of total investments at fair value)				\$	16,058	\$ 13,173
Affiliate Investments ⁽⁵⁾:						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.8%)	\$	350	\$ 960
Total Affiliate Investments (represents 2.8% of total investments at fair value)				\$	350	\$ 960
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	September 2014	404,968 shares of common stock (1.7%) ⁽⁶⁾	\$	5,706	\$ 3,981
Total Non-Affiliate Investments - Related Party (represents 11.5% of total investments at fair value)					\$5,706	\$3,981
Non-Affiliate Investments (less than 5% owned):						
Orco Property Group S. A.	Real estate	April 2011		\$	597	1,030

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Paris, France			10% promissory note due 2/18 ⁽²⁾⁽⁷⁾			
Security Monitor Holdings, LLC	Business products and services	November 2013	14% promissory note due 6/14 ⁽²⁾	500	500	50
Boston, MA						
Total Non-Affiliate Investments (represents 4.4% of total investments at fair value)				\$ 1,097	\$ 1,53	
Total Investment in Portfolio				\$ 23,211	\$ 19,646	
Securities						
Temporary Cash Investments						
U.S. Treasury Bill	Government	December 2014	UST 0% 6/15	14,999	\$ 14,999	\$ 14,996
Total Temporary Cash Investments (represents 43.3% of total investments at fair value)				\$ 14,999	\$ 14,996	
Total Investments				\$ 38,210	\$ 34,642	

(1) See Note 3 to the financial statements, Valuation of Investments.

(2) Income-producing.

(3) Non-income producing.

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

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

Pursuant to a Share Exchange Agreement between the Fund and MVC dated May 14, 2014, MVC has the right to rescind the Agreement and cancel the Share Exchange if Equus does not complete a "reorganization" (as defined under Section 2(a)(33) of the 1940 Act) within a 90-day period following the 1-year anniversary date of the Agreement.

In October 2014, the terms of these notes were amended to provide, among other changes, an extension of the maturity date to October 2019, and a reduction in the interest rate applicable to the notes from a combination of 5% cash and 5% payment-in-kind securities, to 7% in cash.

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

DECEMBER 31, 2014

(Unaudited)

Except for our holding of shares of MVC and our notes of Orco Property Group S.A. (“OPG”), substantially all of our portfolio securities are restricted from public sale without prior registration under the Securities Act. We negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

As defined in the 1940 Act, all of our investments are in eligible portfolio companies. We provide significant managerial assistance to portfolio companies that comprise 67.1% of the total value of the investments in portfolio securities as of December 31, 2014.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2014 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as	
			Percentage of	
			Net Assets	
Limited liability company investments	\$12,900	\$10,015	27.7	%
Secured and subordinated debt	4,255	4,690	13.0	%
Common stock	6,056	4,941	13.6	%
Total	\$23,211	\$19,646	54.3	%

Interest payments are being received and/or accrued on notes with a fair value of \$1.5 million, while accrued interest has been impaired on notes receivable included in secured and subordinated debt with a fair value of \$3.2 million.

The following is a summary by industry of our investments in portfolio securities as of December 31, 2014 (in thousands):

Industry	Fair Value	Fair Value as	
		Percentage of	
		Net Assets	
Energy	\$9,800	27.1	%
Financial services	3,981	11.0	%
Business products and services	3,658	10.1	%
Real estate	1,032	2.9	%
Shipping products and services	960	2.7	%
Media	215	0.5	%
Total	\$19,646	54.3	%

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

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EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(Unaudited)

(1) Description of Business and Basis of Presentation

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

We attempt to maximize the return to stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value of between \$5.0 million and \$75.0 million, although we may engage in transactions with smaller or larger investee companies from time to time. We seek to invest primarily in companies pursuing growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses or special situations. Our income-producing investments consist principally of debt securities including subordinate debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies (or smaller public companies) in transactions negotiated directly with such companies. Given market conditions over the past several years and the performance of our portfolio, our Management and Board of Directors believe it prudent to continue to review alternatives to refine and further clarify the current strategies.

We elected to be treated as a business development company (“BDC”) under the 1940 Act. We currently qualify as a regulated investment company (“RIC”) for federal income tax purposes and, therefore, are not required to pay corporate income taxes on any income or gains that we distribute to our stockholders. We have certain wholly owned taxable subsidiaries (“Taxable Subsidiaries”) each of which holds one or more portfolio investments listed on our Schedules of Investments. The purpose of these Taxable Subsidiaries is to permit us to hold certain income-producing investments or portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross revenue for income tax purposes must consist of investment income. Absent the Taxable Subsidiaries, a portion of the gross income of these income-producing

investments or of any LLC (or other pass-through entity) portfolio investment, as the case may be, would flow through directly to us for the 90% test. To the extent that such income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and, therefore, cause us to incur significant federal income taxes. The income of the LLCs (or other pass-through entities) owned by Taxable Subsidiaries is taxed to the Taxable Subsidiaries and does not flow through to us, thereby helping us preserve our RIC status and resultant tax advantages. We do not consolidate the Taxable Subsidiaries for income tax purposes and they may generate income tax expense because of the Taxable Subsidiaries' ownership of the portfolio companies. We reflect any such income tax expense on our Statements of Operations.

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

The results of operations for the six months ended June 30, 2015 are not necessarily indicative of results that ultimately may be achieved for the remainder of the year. The interim unaudited financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission ("SEC"). Certain previously reported June 30, 2014 amounts have been reclassified to conform with the current presentation.

(2) Liquidity and Financing Arrangements

Liquidity—There are several factors that may materially affect our liquidity during the reasonably foreseeable future. We view this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e.*, the period through June 30, 2016. We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We have followed valuation techniques in a consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine follow-on investments, if any, through the next twelve months.

Cash and Cash Equivalents—As of June 30, 2015, we had cash and cash equivalents of \$18.0 million. We had \$19.5 million of our net assets of \$38.0 million invested in portfolio securities.

As of December 31, 2014, we had cash and cash equivalents of \$15.7 million. We had \$19.7 million of our net assets of \$36.2 million invested in portfolio securities. We also had \$15.1 million of restricted cash and temporary cash investments, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC to maintain our pass-through tax treatment. Of this amount, \$15.0 million was invested in U.S. Treasury bills and \$0.1 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills were sold on January 2, 2015 and we subsequently repaid this margin loan. The margin loan and interest was paid on February 4, 2015.

Dividends— We will pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

Investment Commitments—As of June 30, 2015, we had no outstanding commitments to our portfolio company investments.

Under certain circumstances, we may be called on to make follow-on investments in certain portfolio companies. If we do not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, our equity interest in the estimated fair value of the portfolio company could be reduced.

RIC Borrowings, Restricted Cash and Temporary Cash Investments—We may periodically borrow sufficient funds to maintain the Fund’s RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If we are unable to borrow funds to make qualifying investments, we may no longer qualify as a RIC. We would then be subject to corporate income tax on the Fund’s net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be materially adverse to us and our stockholders.

We had no RIC borrowings or restricted cash as of June 30, 2015.

As of December 31, 2014, we borrowed \$15.0 million to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary cash investments in U.S. Treasury bills of \$15.1 million. The U.S. Treasury bills were sold on January 2, 2015 and the total amount borrowed was repaid at that time. The margin loan and interest was paid on February 4, 2015.

Certain Risks and Uncertainties— Market and economic volatility which has become endemic in the past few years has resulted in a relatively limited amount of available debt financing for small and medium-sized companies such as Equus and its portfolio companies. Such debt financing generally has shorter maturities, higher interest rates and fees, and more restrictive terms than debt facilities available in the past. In addition, during these years and continuing into the first six months of 2015, the price of our common stock remained well below our net asset value, thereby making it undesirable to issue additional shares of our common stock below net asset value. Because of these challenges, our near-term strategies shifted from originating debt and equity investments to preserving liquidity necessary to meet our operational needs. Key initiatives that we have previously undertaken to provide necessary liquidity include monetizations, the suspension of dividends and the internalization of management. Although we cannot assure you that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our operating requirements for the remainder of 2015 and the first six months of 2016.

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(3) Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although we believe the estimates and assumptions used in preparing these financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates.

Valuation of Investments—We follow ASC Topic 820 for measuring fair value. Prior to our election to become a BDC, we also followed the guidance in ASC Topic 820 in disclosing the fair value reported for all financial instruments that were either impaired or available for sale securities, using the definitions provided in Accounting Standards Codification Topic 320, “Investments – Debt and Equity Securities” (“ASC Topic 320”). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under ASC Topic 820 as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3—Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information under the circumstances and may require significant management judgment or estimation.

We consider a two-step process when appraising investments of privately held companies. The first step involves determining the enterprise value of the portfolio company. During this step, we consider three different valuation approaches: a market approach, an income approach, and a cost approach. The particular facts and circumstances of each portfolio company determine which approach, or combination of approaches, will be utilized. The second step

when appraising equity investments of privately held companies involves allocating value to the various debt and equity securities of the company. We allocate value to these securities based on their relative priorities. For equity securities such as warrants, we may also incorporate alternative methodologies including the Black-Scholes Option Pricing Model. Yield analysis is also employed to determine if a debt security has been impaired.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Investments for which prices are not observable are generally private investments in the debt and equity securities of operating companies. The primary valuation method used to estimate the fair value of these Level 3 investments is the discounted cash flow method (although a liquidation analysis, option theoretical, or other methodology may be used when more appropriate). The discounted cash flow approach to determine fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant factors depending on investment type, including comparing the latest arm's length or market transactions involving the subject security to the selected benchmark credit spread, assumed growth rate (in cash flows), and capitalization rates/multiples (for determining terminal values of underlying portfolio companies). The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date. Application of these valuation methodologies involves a significant degree of judgment by management. Fair values of new investments are generally assumed to be equal to their cost to the Company for up to three months after their initial purchase.

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To assess the reasonableness of the discounted cash flow approach, the fair value of equity securities, including warrants, in portfolio companies may also consider the market approach—that is, through analyzing and applying to the underlying portfolio companies, market valuation multiples of publicly-traded firms engaged in businesses similar to those of the portfolio companies. The market approach to determining the fair value of a portfolio company's equity security (or securities) will typically involve: (1) applying to the portfolio company's trailing twelve months (or current year projected) EBITDA a low to high range of enterprise value to EBITDA multiples that are derived from an analysis of publicly-traded comparable companies, in order to arrive at a range of enterprise values for the portfolio company; (2) subtracting from the range of calculated enterprise values the outstanding balances of any debt or equity securities that would be senior in right of payment to the equity securities we hold; and (3) multiplying the range of equity values derived therefrom by our ownership share of such equity tranche in order to arrive at a range of fair values for our equity security (or securities). Application of these valuation methodologies involves a significant degree of judgment by Management.

Equity in a portfolio company that invests in loans will typically be valued by arriving at a fair value of such vehicle's loan assets (plus, when appropriate, the carrying value of certain other assets), and deducting the book value or fair value (as appropriate) of such vehicle's liabilities to arrive at a fair value for the equity. When appropriate, in order to recognize value that would be created by growth opportunities of such portfolio company, equity in a portfolio company may also be valued by taking into consideration the magnitude, timing, and effective life of its expected future investments in loans.

Due to the inherent uncertainty of determining the fair value of Level 3 investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions or otherwise are less liquid than publicly traded instruments. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we might realize significantly less than the value at which such investment had previously been recorded. With respect to Level 3 investments, where sufficient market quotations are not readily available or for which no or an insufficient number of indicative prices from pricing services or brokers or dealers have been received, we undertake, on a quarterly basis, a valuation process as described below:

- For each debt investment, a basic credit review process is completed. The risk profile on every credit facility is reviewed and either reaffirmed or revised by our Investment Committee.

- Each portfolio company or investment is valued by an investment professional

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