EQUUS TOTAL RETURN, INC.
Form 10-Q
August 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2013

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	**76-0345915**
(State or other jurisdiction of incorporation or organization)	**(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 10,561,646 shares of the registrant's common stock, $.001 par value, outstanding, as of August 14, 2013.

EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

INDEX

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Supplemental Information—Selected Per Share Data and Ratios	7
Schedule of Investments	8
Notes to Financial Statements	12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosure about Market Risk	28
Item 4. Controls and Procedures	28
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	29
Item 1A. Risk Factors	30
Item 6. Exhibits	30
SIGNATURE	31

EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

Part I. Financial Information

Item 1. Financial Statements

(in thousands, except per share amounts)	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at $15,648 and $15,479 respectively)	$ 7,057	$ 7,419
Affiliate investments (cost at $350 and $350 respectively)	150	150
Non-affiliate investments (cost at $8,821 and $10,625 respectively)	1,612	1,663
Total investments in portfolio securities at fair value	8,819	9,232
Cash and cash equivalents	21,304	23,687
Accounts receivable and other	338	71
Accrued interest receivable	181	293
Total assets	30,642	33,283
Liabilities and net assets		
Accounts payable and accrued liabilities	238	214
Accounts payable to related parties	237	194
Total liabilities	475	408
Commitments and contingencies		
Net assets	$ 30,167	$ 32,875
Net assets consist of:		
Common stock, par value	$ 10	$ 10
Capital in excess of par value	59,700	61,495
Undistributed net investment losses	(13,543)	(11,408)
Unrealized depreciation of portfolio securities, net	(16,000)	(17,222)
Total net assets	$ 30,167	$ 32,875
Shares of common stock issued and outstanding, $.001 par value, 50,000 shares authorized	10,562	10,562
Shares of preferred stock issued and outstanding, $.001 par value, 5,000 shares authorized	—	—
Net asset value per share	$ 2.86	$ 3.11

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Investment income (loss), net:				
Interest income (loss), net:				
Control investments	$(25)	$180	$(157)	$320
Non-affiliate investments	40	31	76	118
Total interest income (loss), net	15	211	(81)	438
Interest from temporary cash investments	—	1	—	1
Total investment income (loss) net	15	212	(81)	439
Expenses:				
Professional fees	391	388	659	671
Compensation expense	228	370	467	569
Director fees and expenses	144	110	246	250
General and administrative expense	34	25	72	97
Mailing, printing and other expenses	52	92	75	117
Taxes	3	4	8	9
Interest expense	—	—	—	1
Settlement expense	527	—	527	—
Total expenses	1,379	989	2,054	1,714
Net investment loss	(1,364)	(777)	(2,135)	(1,275)
Net realized loss:				
Affiliate investments	—	(5,187)	—	(5,187)
Non-affiliate investments	(1,795)	—	(1,795)	—
Temporary cash investments	—	(1)	—	(1)
Net realized loss	(1,795)	(5,188)	(1,795)	(5,188)
Net unrealized depreciation of portfolio securities:				
End of period	(16,000)	(15,666)	(16,000)	(15,666)
Beginning of period	(17,910)	(17,398)	(17,222)	(17,399)
Net change in unrealized depreciation of portfolio securities	1,910	1,732	1,222	1,733
Net decrease in net assets resulting from operations	$(1,249)	$(4,233)	$(2,708)	$(4,730)
Net decrease in net assets resulting from operations per share:				
Basic and diluted	$(0.11)	$(0.40)	$(0.25)	$(0.45)
Weighted average shares outstanding:				
Basic and diluted	10,562	10,562	10,562	10,562

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Six months ended June 30,	
(in thousands)	2013	2012
Net decrease in net assets resulting from operations	$(2,708)	$(4,730)
Net assets at beginning of period	32,875	38,148
Net assets at end of period	$30,167	$33,418

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

5

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30,	
(in thousands)	2013	2012
Reconciliation of decrease in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net decrease in net assets resulting from operations	$(2,708)	$(4,730)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net realized loss	1,795	5,188
Net change in unrealized depreciation of portfolio securities	(1,222)	(1,733)
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(169)	—
Net proceeds from dispositions of portfolio securities	—	4,008
Principal payments received from portfolio securities	9	5,618
Sales of temporary cash investments, net	—	6,060
Increase in accounts receivable and other	(267)	(64)
Decrease in accrued interest receivable	112	1,637
Increase in accounts payable and accrued liabilities	24	233
Increase in accounts payable to related parties	43	9
Net cash (used in) provided by operating activities	(2,383)	16,226
Cash flows from financing activities:		
Borrowings under margin account	—	8,000
Repayments under margin account	—	(14,000)
Net cash provided by financing activities	—	(6,000)
Net (decrease) increase in cash and cash equivalents	(2,383)	10,226
Cash and cash equivalents at beginning of period	23,687	16,813
Cash and cash equivalents at end of period	$21,304	$27,039
Non-cash investing and financing activities:		
Accrued interest or dividends exchanged for portfolio securities	$—	$301
Supplemental disclosure of cash flow information:		
Interest paid	$—	$1
Income taxes paid	$8	$9

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

EQUUS TOTAL RETURN, INC.

SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS

(Unaudited)

	Six months ended June 30,	
	2013	2012
Investment income (loss), net	$(0.01)	$0.04
Expenses	0.19	0.16
Net investment loss	(0.20)	(0.12)
Net realized gain (loss)	(0.17)	(0.49)
Net change in unrealized depreciation	0.12	0.16
Net decrease in net assets	(0.25)	(0.45)
Net assets at beginning of period	3.11	3.61
Net assets at end of period, basic and diluted	$2.86	$3.16
Weighted average number of shares outstanding during period, in thousands	10,562	10,562
Market price per share:		
Beginning of period	$2.36	$2.24
End of period	$1.91	$2.44
Selected information and ratios:		
Ratio of expenses to average net assets	6.52 %	4.79 %
Ratio of net investment loss to average net assets	(6.77 %)	(3.56 %)
Ratio of net decrease in net assets resulting from operations to average net assets	(8.59 %)	(13.22 %)
Total return on market price [(1)]	(19.07 %)	8.93 %

(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 statements.

7

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

JUNE 30, 2013

(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	$ 6,725
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	
Spectrum Management, LLC Carrolton, TX	Business products and services	December 1999	285,000 units of Class A member interest (92.1%/82.5% fully diluted)		2,850	
			16% subordinated promissory notes due 11/11 [5]	$ 2,748	2,748	
					5,598	
Total Control Investments: Majority-owned (represents 80.0% of total investments at fair value)					**$ 15,648**	$ **7,057**
Affiliate Investments [4]:						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.70%)		$ 350	$ 15
Total Affiliate Investments (represents 1.7% of total investments at fair value)					**$ 350**	**$ 150**
Non-Affiliate Investments (less than 5% owned):						
Infinia Corporation Ogden, UT	Alternative energy	June 2007	115,180 shares common stock (0.06%)		8,000	

			Option to purchase 16,000 shares of common stock at $6.50 per share through 12/12			8,000		
Orco Property Group Paris, France	Real estate	April 2011	73,666 shares common stock			125		214
			10% Promissory note due 2/18 [2]	$	696		696	1,398
						821		1,
Trulite, Inc. Columbia, SC	Alternative energy	August 2008	Warrants to buy 8,934,211 shares of common stock at $0.01 - $0.38 per share through 11/15				-	
Total Non-Affiliate Investments (represents 18.3% of total investments at fair value)						$ 8,821		$ 1,612
Total Investment in Portfolio Securities						**$ 24,819**		**$ 8,819**

(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) Non-income producing.

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

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

JUNE 30, 2013

(Unaudited)

Except for our holding of ordinary shares 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 of 1933 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, 2013, except for our holdings in OPG, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act, and for which we provide significant managerial assistance.

Our investments in portfolio securities consist of the following types of securities as of June 30, 2013 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of **Net Assets**	
Limited liability company investments	$12,900	$6,941	23.0	%
Secured and subordinated debt	3,444	1,514	5.0	%
Common stock	8,475	364	1.2	%
Total	$24,819	$8,819	29.2	%

Interest payments are being received and/or accrued on notes with a fair value of $1.4 million, while accrued interest has been impaired on notes receivable included in secured and subordinated debt with a fair value of $0.1 million.

The following is a summary by industry of the Fund's investments in portfolio securities as of June 30, 2013 (in thousands):

Industry	Fair Value	Fair Value as Percentage of **Net Assets**
Energy	$6,725	22.3 %
Real estate	1,612	5.3 %
Media	216	0.7 %
Shipping products and services	150	0.5 %
Business products and services	116	0.4 %
Total	$8,819	29.2 %

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

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2012

(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	$6,855
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	146
Spectrum Management, LLC Carrolton, TX	Business products and services	December 1999	285,000 units of Class A member interest (92.1%/82.5% fully diluted)		2,850	-
			16% subordinated promissory notes due 11/11[5]	$2,579	2,579	418
					5,429	418
Total Control Investments: Majority-owned (represents 80.4% of total investments at fair value)					$**15,479**	$**7,419**
Affiliate Investments [4]:						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.70%)		$350	$150
Total Affiliate Investments (represents 1.6% of total investments at fair value)					$**350**	$**150**
Non-Affiliate Investments (less than 5% owned):						
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B shares (12.25%)		$1,795	$-
			preferred stock			
			38,750 Class C shares preferred stock		-	-
					-	-

			788,649 Class D shares 15% preferred stock		-	-
			2,218,109 Class E shares 8% preferred stock		-	-
			Warrant to buy 2,229,450 shares of common stock through 5/16		1,795	-
Infinia Corporation Ogden, UT	Alternative energy	June 2007	115,180 shares common stock (0.06%)		8,000	-
			Option to purchase 16,000 shares of common stock at $6.50 per share through 12/12		-	-
					8,000	-
Orco Property Group S.A. Paris, France	Real estate	April 2011	73,666 shares common stock		125	238
			10% Promissory note due 2/18 [2]	$705	705	1,425
					830	1,663
Trulite, Inc. Columbia, SC	Alternative energy	August 2008	Warrants to buy 8,934,211 shares of common stock at $0.01 - $0.38 per share through 11/15		-	-
Total Non-Affiliate Investments (represents 18.0% of total investments at fair value)					$**10,625**	$**1,663**
Total Investment in Portfolio Securities					$**26,454**	$**9,232**

(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) Non-income producing.

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

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

DECEMBER 31, 2012

(in thousands, except share data)

Substantially all of our portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933. 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 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 December 31, 2012, except for our holdings in OPG, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act, and for which we provide significant managerial assistance.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2012 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Limited liability company investments	$12,900	$7,001	21.3 %
Secured and subordinated debt	3,284	1,843	5.6 %
Common stock	8,475	388	1.2 %
Preferred stock	1,795	—	0.0 %
Total	$26,454	$9,232	28.1 %

Interest payments are being received and/or accrued on notes with a fair value of $1.4 million, while accrued interest has been impaired on notes receivable included in secured and subordinated debt with a fair value of $0.4 million.

The following is a summary by industry of our investments in portfolio securities as of December 31, 2012 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Energy	$6,855	20.8 %
Real estate	1,663	5.1 %
Business products and services	418	1.3 %
Shipping products and services	150	0.5 %
Media	146	0.4 %
Alternative energy	—	0.0 %
Total	$9,232	28.1 %

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

11

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

(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 a change of the Fund's investment strategy to a total return investment objective. This new strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

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 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 is 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 Investment Company Act of 1940 ("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 investments. 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 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, 2013 are not necessarily indicative of results that ultimately may be achieved for 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 Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission ("SEC").

(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, 2014.

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 capital expenditures through the next twelve months.

Cash and Cash Equivalents—As of June 30, 2013, we had cash and cash equivalents of $21.3 million. We had $8.8 million of our net assets of $30.2 million invested in portfolio securities.

As of December 31, 2012, we had cash and cash equivalents of $23.7 million. We had $9.2 million of our net assets of $32.9 million invested in portfolio securities.

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, 2013, 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, 2013 and December 31, 2012, respectively.

Certain Risks and Uncertainties— Economic conditions since 2008 and resulting market dislocations have resulted in a significant decline in the availability of debt and equity. 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 these years and continuing into the first six months of 2013, the price of our common stock continued to fall well below our net asset value, thereby making it undesirable to issue additional shares of our common stock. Because of these challenges, our near-term strategies shifted solely from originating debt and equity investments to also include liquidity preservation efforts necessary to meet our operational needs. Key initiatives that we have previously undertaken to provide necessary liquidity include monetizations, the suspension of dividends and investments in portfolio securities using shares of the Fund. Although we cannot assure you that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our 2013 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 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—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 our Board of Directors. As a general principle, the current "fair value" of an investment would be the amount we 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.

Thinly Traded and Over-the-Counter Securities—Generally, we value securities that are traded in the over-the-counter market or on a stock exchange at the average of the prevailing bid and ask prices on the date of the relevant period end. However, we may apply a discount to the market value of restricted or thinly traded public securities to reflect the impact that these restrictions have on the value of these securities. We review factors, including the trading volume, total securities outstanding and our percentage ownership of securities to determine whether the trading levels are active (Level 1) or inactive (Level 2) or unobservable (Level 3). These types of securities represented 15.9% and 15.4% of our investments in portfolio securities as of June 30, 2013 and December 31, 2012, respectively. We utilized independent pricing services with certain of our fair value estimates. To corroborate "bid/ask" quotes from independent pricing services, we perform a market-yield approach to validate prices obtained or obtain other evidence.

During the first twelve months after an investment is made, the original investment value is utilized to determine the fair value unless significant developments have occurred during this twelve month period which would indicate a material effect on the portfolio company (such as results of operations or changes in general market conditions). After the twelve month period, or if material events have occurred within the twelve month period, 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 an asset 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.

Market approach—The market approach typically employed by our management calculates the enterprise value of a company as a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA") generated by the

company for the trailing twelve month period. Adjustments to the company's EBITDA, including those for non-recurring items, may be considered. Multiples are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. We will apply liquidity and other discounts it deems appropriate to equity valuations where applicable. We 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.

Income approach—The income approach typically utilized by our management calculates the enterprise value of a company utilizing a discounted cash flow model incorporating projected future cash flows of the company. Projected future cash flows consider the historical performance of the company as well as current and projected market participant performance. Discount rates are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. We will apply liquidity and other discounts we deem appropriate to equity valuations where applicable.

Asset approach—We consider the asset approach to determine the fair value of significantly deteriorated investments demonstrating circumstances indicative of a liquidation analysis. This situation may arise 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 its debt upon maturity; 3) we believe the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions which may result in the company's inability to meet future obligations; or 4) the portfolio company's reorganization or bankruptcy. Consideration is also given as to whether a liquidation event would be orderly or forced.

We base adjustments upon such factors as the portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, we may base a portfolio company's fair value upon the company's estimated liquidation value. Fair valuations are necessarily subjective, and management's estimate of fair value may differ materially from amounts actually received upon the disposition of its portfolio securities. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment. However, in addition to the previously described analysis involving allocation of value to the debt instrument, we perform a yield analysis to determine if a debt security has been impaired.

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 of each privately-held investment in order to make their own independent assessment. 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.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $8.6 million and $9.0 million as of June 30, 2013 and December 31, 2012, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. As of June 30, 2013 and December 31, 2012, one of our portfolio investments, consisting of 73,666 ordinary shares of OPG, is publicly listed on the NYSE Euronext Paris Exchange.

On a daily basis, we adjust our net asset value for the changes in the value of our publicly held securities, if applicable, and material changes in the value of 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*.

Foreign Exchange—We record temporary changes in foreign exchange rates of portfolio securities denominated in foreign currencies as changes in fair value. These changes are therefore reflected as unrealized gains or losses until realized.

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

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in companies in which we own more than 25% of the voting securities or maintain greater than 50% representation on the portfolio company's governing board. Under the 1940 Act, "Affiliate Investments" are defined as those non-control investments in companies in which we own 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—We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We accrete or amortize 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 (PIK)—We have loans in our portfolio that may pay PIK interest. We add PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and record it as interest income. To maintain our status as a RIC, we must pay out to stockholders this non-cash source of income in the form of dividends even if we have not yet collected any cash in respect of such investments.

Cash Flows—For purposes of the Statements of Cash Flows, we consider all highly liquid temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. We include our investing activities within cash flows from operations. We exclude "Restricted Cash & Temporary Cash Investments" used for purposes of complying with RIC requirements from cash equivalents. See Note 2 for further discussion of the Fund's RIC borrowings.

Income Taxes—We intend to comply with the requirements of the Internal Revenue Code necessary for us to qualify as a RIC. So long as we comply with these requirements, we generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. Therefore, we did not record a provision for federal income taxes in our financial statements. We borrow money from time to time to maintain our tax status under the Internal Revenue Code as a RIC. See Note 2 for further discussion of our RIC borrowings.

All corporations incorporated in the State of Delaware are required to file an Annual Report and to pay a franchise tax. As a result, we paid Delaware Franchise tax in the amount of $0.01 million for the year ended December 31, 2012.

Texas margin tax applies to legal entities conducting business in Texas. 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. As a result, we did not owe state income tax for the year ended December 31, 2012.

Fair Value Measurement—Fair value is defined 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. We have 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 our 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. As previously described, 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.

We will record unrealized depreciation on investments when we determine that the fair value of a security is less than its cost basis, and will record unrealized appreciation when we determine that the fair value is greater than its cost basis.

As of June 30, 2013, 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 June 30, 2013		
(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:				
Control investments	$7,057	$—	$ —	$ 7,057
Affiliate investments	150	—	—	150
Non-affiliate investments	1,612	214	—	1,398
Total investments	$8,819	$214	$ —	$ 8,605

As of December 31, 2012, 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:

(in thousands)	**Total**	**Fair Value Measurements As of December 31, 2012** Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Control investments	$7,419	$—	$ —	$ 7,419
Affiliate investments	150	—	—	150
Non-affiliate investments	1,663	238	—	1,425
Total investments	$9,232	$238	$ —	$ 8,994

The following table provides a reconciliation of fair value changes during the six months ended June 30, 2013 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, 2012	$7,419	$ 150	$ 1,425	$8,994
Realized losses	—	—	(1,795)	(1,795)
Change in unrealized appreciation (depreciation)	(531)	—	1,777	1,246
Purchases of portfolio securities	169	—	—	169
Proceeds from sales/dispositions	—	—	(9)	(9)
Fair value as of June 30, 2013	$7,057	$ 150	$ 1,398	$8,605

The following table provides a reconciliation of fair value changes during the six months ended June 30, 2012 for all investments for which we determine fair value using unobservable (Level 3) factors:

(in thousands)	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2011	$13,298	$ 150	$ 5,734	$19,182
Realized losses	(5,187)	—	—	(5,187)
Change in unrealized appreciation (depreciation)	2,069	—	(336)	1,733
Purchase of portfolio securities	—	—	301	301
Proceeds from sales/dispositions	(9,627)	—	—	(9,627)
Transfers out of Level 3	—	—	(3,149)	(3,149)
Fair value as of June 30, 2012	$553	$ 150	$ 2,550	$3,253

Significant Unobservable Inputs — Our investment portfolio is not composed of homogeneous debt and equity securities that can be valued with a small number of inputs. Instead, the majority of our investment portfolio is composed of complex debt and equity securities with distinct contract terms and conditions. As such, our valuation of each investment in our portfolio is unique and complex, often factoring in numerous different inputs, including historical and forecasted financial and operational performance of the portfolio company, project cash flows, market multiples comparable market transactions, the priority of our securities compared with those of other investors, credit risk, interest rates, independent valuations and reviews and other inputs.

The following table summarizes the significant observable inputs in the fair value measurements of our level 3 investments by category of investment and valuation technique as of June 30, 2013:

(in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range Minimum	Range Maximum
Secured and subordinated debt	$1,514	Yield Analysis	Market interest rate	5.4%	12.4%
		Pending Transaction	Discount for lack of marketability	5%	15%
		Asset Approach	Recovery rate	0%	100%
Common stock	150	Pending Transaction	Discount	0%	100%
Limited liability company investments	6,941	Asset Approach	Recovery rate	0%	100%
	$8,605				

(4) **Related Party Transactions and Agreements**

Except as noted below, 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 $15,000 is paid to the Chairman of the Audit Committee and a quarterly fee of $3,750 is paid to the Chairman of the Independent Directors. We have also paid and will likely continue to pay other one-time or recurring fees to members of our Board of Directors in special circumstances. None of our interested directors receive annual fees for their service on 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 pays a rate of $250 per hour for services rendered.

In November, 2011, Equus Energy, LLC, a wholly-owned subsidiary of the Fund, entered into a consulting agreement with Global Energy Associates, LLC (“Global Energy”) to provide consulting services for energy related investments. Henry W. Hankinson, Director, is a managing partner and co-founder of Global Energy. Payments to Global Energy totaled $37,500 for each of the six months ended June 30, 2013 and 2012.

On August 12, 2012, Paula Douglass filed a lawsuit against the Fund and members of the Board of Directors in the District Court of Harris County, Texas. Ms. Douglass' complaint alleged various causes of action, including minority shareholder oppression, dilution, and breach of fiduciary duty, and sought unspecified damages and attorney's fees. Effective June 13, 2013, the Fund entered into a settlement agreement with Ms. Douglass, Sam Douglass, as well as certain trusts controlled by them. Pursuant to the settlement agreement and in view of the estimated costs of protracted litigation and the associated disruption to the operations of the Fund, the Board of Directors approved a payment of $402,254, in complete settlement of the lawsuit, as being in the best interests of the Fund and its shareholders. The settlement payment was made on July 30, 2013. Ms. Douglass filed a motion to dismiss the lawsuit with prejudice on August 8, 2013.

Effective June 13, 2013, the Fund entered into a settlement agreement with Sam Douglass, a former director and executive officer of the Fund, in respect of a claim for indemnification pursuant to the General Corporation Law of Delaware and an indemnification agreement entered into by the Fund with Mr. Douglass on May 3, 2001. The settlement agreement provides for the reimbursement to Mr. Douglass of actual expenses incurred, excluding any fines or penalties, in connection with an enforcement action initiated by the Securities and Exchange Commission against Mr. Douglass in 2009. The settlement payment of $125,000 was made on June 24, 2013.

(5) **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.

(6) Portfolio Securities

During the six months ended June 30, 2013, we capitalized legal and consulting expenses of $0.2 million relating to Spectrum Management, LLC. We also received a semi-annual interest payment of $0.03 million and a 5.75% partial principal repayment of $0.01 million in respect of our €1.2 million [$1.5 million] in OPG notes.

During the six months ended June 30, 2013, we realized capital losses of $1.8 million due to the asset sale of The Bradshaw Group to PartsNow! LLC. The structure and pricing of the transaction was such that only the Class A preferred shareholders received any proceeds. There were no proceeds to the other equity classes, including the Classes B, D, and E preferred stock and warrants owned by the Fund. The Fund invested in Bradshaw in May 2000 and the Fund's investment has been valued at $0 since 2002.

Net unrealized depreciation on investments decreased to $16.0 million during the six months ended June 30, 2013, from a net unrealized depreciation of $17.2 million. Such decrease in unrealized depreciation is largely due to the following changes:

(i) Decrease in fair value of Equus Energy, LLC of $0.1 million due to operating expenses.

(ii) Decrease in fair value of Spectrum Management, LLC of $0.3 million due to a decline in operating performance and $0.2 million in capitalized legal and consulting expenses.

(iii) Transfer of unrealized loss to realized loss of The Bradshaw Group ("Bradshaw") of $1.8 million upon the asset sale of the investment.

During the six months ended June 30, 2012, we made no follow-on investments, nor realized any significant gains or losses on sales of portfolio securities. However, the Fund capitalized $0.3 million in accrued interest relating to the restructuring of 8,890 4% bonds of Orco Germany S.A. that were ultimately converted into shares and notes of OPG.

During the six month ended June 30, 2012, we realized capital losses of $5.2 million, including the following transactions (in thousands):

Portfolio Company	Industry	Type	Transaction Type	Realized Loss
ConGlobal Industries Holding, Inc.	Shipping products and services	Control	Disposition	$(4,114)
Sovereign Business Forms, Inc.	Business products and services	Control	Disposition	(1,073)
Various Others			Disposition	(1)

	$(5,188)

Net unrealized depreciation on investments decreased by $1.7 million during the six months ended June 30, 2012, to a net unrealized depreciation of $15.7 million. Such decrease in unrealized depreciation is largely due to the following changes:

(i) Transfer of unrealized loss to realized loss of ConGlobal Industries Holding, Inc. ("ConGlobal") of $1.6 million upon the divestiture of the investment.

(ii) Transfer of unrealized loss to realized loss of Sovereign Business Forms, Inc. ("Sovereign") of $0.6 million upon the divestiture of the investment.

(iii) Restructuring of 8,890 4% bonds of Orco Germany, S.A. bonds into shares and notes of OPG, with the capitalization of $0.3 million accrued interest resulting in a corresponding decrease in unrealized gain.

(7) **Equus Energy, LLC**

Equus Energy, LLC ("Equus Energy") was formed in November 2011 as a wholly-owned subsidiary of the Fund to make investments in companies in the energy sector, with particular emphasis on income-producing oil & gas properties. In December 2011, we contributed $250,000 to the capital of Equus Energy. On December 27, 2012, we invested an additional $6.8 million in Equus Energy for the purpose of additional working capital and to fund the purchase of $6.6 million in working interests in 150 producing and non-producing oil and gas wells. The working interests include associated development rights of approximately 23,000 acres situated on 15 separate properties in Texas and Oklahoma. The working interests range from a *de minimus* amount to 50% of the leasehold that includes these wells.

The wells are operated by a number of experienced operators, including a major multinational oil and gas conglomerate which has operating responsibility for all of Equus Energy's 40 producing well interests located in the Conger Field, a productive oil and gas field on the edge of the Permian Basin that has experienced successful gas and hydrocarbon extraction in multiple formations. Equus Energy, which holds a 50% working interest in each of these Conger Field wells, is working with the operator in a recompletion program of existing Conger Field wells to the Wolfcamp formation, a zone containing oil as well as gas and natural gas liquids. One recompletion in the Conger Field has been effected since the closing date of the acquisition, with additional recompletions scheduled for the remainder of 2013 and beyond. Part of Equus Energy's acreage rights described above also includes a 50% working interest in possible new drilling to the base of the Canyon formation (appx. 8,500 feet) on 2,400 acres in the Conger Field. Also included in the interests acquired by Equus Energy are working interests of 7.5% and 2.5% in the Burnell and North Pettus Units, respectively, which collectively comprise approximately 13,000 acres are located in the area known as the "Eagle Ford Shale" play.

Revenue and Income. Equus Energy generated revenue and operating income of $600,760 and $276,894, respectively, in the second quarter of 2013. For the six months ended June 30, 2013, revenue and operating income was $1,206,167 and $554,083, respectively. After factoring in depletion, depreciation, and amortization costs, as well as general and administrative costs, Equus Energy generated net income of $102,108 for the three months ended June 30, 2013 and a net loss of $130,296 for the six months ended June 30, 2013.

Capital Expenditures. Since the effective date of the acquisition of the well interests, Equus Energy has invested $509,036 in respect of three projects, collectively resulting in an estimated 20,000 additional barrel of oil equivalents ("BOE") to Equus Energy's proven developed reserves:

(i) **Recompletion of the Mahaffey #1 Gas Well in the Conger Field ($363,589).** The recompletion of the Mahaffey #1 gas well to the Wolfcamp shale oil formation was committed prior to the closing date of the acquisition by Equus Energy and came on-line in January 2013. For the five-month period ended May 31, 2013 (the date of the latest revenue statement from the operator), the Mahaffey well generated, net to Equus Energy, approximately $104,000 and $75,000 in gross revenue and operating income, respectively.

(ii) **Drilling of the Hurta #4 Oil Well in the Needville Field ($137,087).** The Hurta #4 well was drilled in February 2013 and came on-line in March 2013. Since being put into production, this well has generated $80,564 and $67,246 in gross revenue and operating income, respectively. We expect that the production of this well will decline according to standard depletion curves applicable to similarly situated wells. In the future, the well may be recompleted to an additional zone.

(iii) **Recompletion of the Hurta #3 Oil Well in the Needville Field ($8,360).** The Hurta #3 well was recompleted in late July, 2013 and is presently producing an average of approximately 12 barrels of oil per day net to Equus Energy. We expect that the production of this well will decline according to standard depletion curves applicable to similarly situated wells. In the future, the well may be recompleted to an additional zone.

We do not consolidate Equus Energy or its wholly owned subsidiaries and accordingly only the value of our investment in Equus Energy is included on our statement of assets and liabilities. Our investment in Equus Energy is valued in accordance with our normal valuation procedures and is based on the values of the underlying assets held by EQS Energy Holdings, Inc. a wholly-owned subsidiary of Equus Energy, net of associated liabilities.

Below is summarized consolidated financial information for Equus Energy as of June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 (in thousands):

	June 30, 2013 (Unaudited)	December 31, 2012 (Unaudited)
Assets		
Current assets	$ 1,459	$ 628
Oil and gas properties:	7,359	6,899
Less: accumulated depletion, depreciation and amortization	(515)	—
Net oil and gas properties	6,844	6,899
Total assets	$ 8,303	$ 7,527
Liabilities and members' capital		
Current liabilities	$ 1,402	$ 499
Asset retirement obligations	176	173
Total non-current liabilities	176	173
Total liabilities	1,578	672
Members' capital		
Total members' capital	6,725	6,855
Total liabilities and members’ capital	$ 8,303	$ 7,527

Revenue and direct operating expenses for the various oil and gas assets included in the accompanying statements represent the net collective working and revenue interests acquired by Equus Energy. The revenue and direct operating expenses presented herein relate only to the interests in the producing oil and nat8,ural gas properties and do not represent all of the oil and natural gas operations of all of these properties. Direct operating expenses include lease operating expenses and production and other related taxes. General and administrative expenses, depreciation, depletion and amortization (“DD&A”) of oil and gas properties and federal and state taxes have been excluded from direct operating expenses in the accompanying statements of revenues and direct operating expenses because the allocation of certain expenses would be arbitrary and would not be indicative of what such costs would have been had Equus Energy been operated as a stand-alone entity. The statements of revenues and direct operating expenses presented are not indicative of the financial condition or results of operations of Equus Energy on a go forward basis due to changes in the business and the omission of various operating expenses.

	Three months ended	Six months ended

	June 30, 2013 (Unaudited)	June 30, 2013 (Unaudited)
Operating revenue	$ 601	$ 1,206
Direct operating expenses	324	652
	277	554
Other operating expenses		
Depletion, depreciation, and amortization	195	517
General and administrative	(28)	159
Total other operating expenses	167	676
Operating income (loss) before income tax expense	110	(122)
Income tax expense	8	8
Net income (loss)	$ 102	$ (130)

Minimal general and administrative expenses were incurred prior to the initial oil and gas investment on December 27, 2012.

Critical Accounting Policies for Equus Energy – Equus Energy and its wholly-owned subsidiary EQS Energy Holdings, Inc. (collectively "the Company") follow the *Full Cost Method of Accounting* for oil and gas properties. Under the full cost method, all costs associated with property acquisition, exploration, and development activities are capitalized. Capitalized costs include lease acquisitions, geological and geophysical work, delay rentals, costs of drilling, completing and equipping successful and unsuccessful oil and gas wells and directly related costs. Gains or losses are normally not recognized on the sale or other disposition of oil and gas properties. Gains or losses are normally reflected as an adjustment to the full cost pool.

The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves and estimated cost of dismantlement and abandonment, net of salvage value, are amortized on a unit-of-production method over the estimated productive life of the proved oil and gas reserves. Unevaluated oil and gas properties are excluded from this calculation. Depletion, depreciation and amortization expense for the Company's oil and gas properties totaled $0.5 million for the six months ending June 30, 2013.

Capitalized oil and gas property costs are limited to an amount (the ceiling limitation) equal to the sum of the following:

(a) As of June 30, 2013, the present value of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at the simple arithmetic average, first-day-of-the-month prices during the twelve-month period before the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements) and a discount factor of 10%;

(b) The cost of investments in unproved and unevaluated properties excluded from the costs being amortized; and

(c) The lower of cost or estimated fair value of unproved properties included in the costs being amortized.

When it is determined that oil and gas property costs exceed the ceiling limitation, an impairment charge is recorded to reduce its carrying value to the ceiling limitation. The Company did not recognize an impairment loss on its oil and gas properties during 2012 or during the six months ended June 30, 2013.

The costs of certain unevaluated leasehold acreage and certain wells being drilled are not amortized. The Company excludes all costs until proved reserves are found or until it is determined that the costs are impaired. Costs not amortized are periodically assessed for possible impairments or reductions in value. If a reduction in value has

occurred, costs being amortized are increased.

Revenue Recognition—Revenues are recognized for oil and natural gas sales under the sales method of accounting. Under this method, revenues are recognized on production as it is taken and delivered to its purchasers. The volumes sold may be more or less than the volumes entitled to, based on the owner's net leasehold interest. These differences result from production imbalances, which are not significant, and are reflected as adjustments to prove reserves and future cash flows in the unaudited supplementary oil and gas information included herein.

Accounting Policy on Depletion—The Company employs the "Units of Production" method in calculating depletion of its proved oil and gas properties, wherein capitalized costs, as adjusted for future development costs and asset retirement obligations, are amortized over the total estimated proved reserves.

Asset Retirement Obligations – The fair value of asset retirement obligations are recorded in the period in which they are incurred if a reasonable estimate of fair value can be made, and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The fair value of the asset retirement obligation is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate. Fair value, to the extent possible, should include a market risk premium for unforeseeable circumstances. No market risk premium was included in the Company's asset retirement obligation fair value estimate since a reasonable estimate could not be made. The liability is accreted to its then present value each period, and the capitalized cost is depleted or amortized over the estimated recoverable reserves using the units-of-production method.

(8) Subsequent Events

Management performed an evaluation of the Fund's activity through the date the financial statements were issued, noting the following subsequent events:

On July 30, 2013, pursuant to the settlement agreement with Paula Douglass as described below under *Legal Proceedings*, the Fund made a settlement payment in the amount of $0.4 million.

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

Overview

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 new strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

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 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 is prudent to continue to review alternatives to refine and further clarify the current strategies.

We elected to be treated as a BDC under the 1940 Act. We currently qualify as a 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 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 investments. We reflect any such income tax expense on our Statements of Operations.

Critical Accounting Policies

Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

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 our Board of Directors. As a general principle, the current "fair value" of an investment would be the amount we 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.

Thinly Traded and Over-the-Counter Securities—Generally, we value securities that are traded in the over-the-counter market or on a stock exchange at the average of the prevailing bid and ask prices on the date of the relevant period end. However, we may apply a discount to the market value of restricted or thinly traded public securities to reflect the impact that these restrictions have on the value of these securities. We review factors, including the trading volume, total securities outstanding and our percentage ownership of securities to determine whether the trading levels are active (Level 1) or inactive (Level 2) or unobservable (Level 3). These types of securities represented 16.0% and 15.4% of our investments in portfolio securities as of June 30, 2013 and December 31, 2012, respectively. We utilized independent pricing services with certain of our fair value estimates. To corroborate "bid/ask" quotes from independent pricing services, we perform a market-yield approach to validate prices obtained or obtain other evidence.

During the first twelve months after an investment is made, the original investment amount is utilized to determine the fair value unless significant developments have occurred during this twelve month period which would indicate a material effect on the portfolio company (such as results of operations or changes in general market conditions). After the twelve month period, or if material events have occurred within the twelve month period, Fund management considers 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, our management considers three different valuation approaches: a market approach, an income approach, and an asset 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. Fund management allocates value to these securities based on their relative priorities. For equity securities such as warrants, the Fund may also incorporate alternative methodologies including the Black-Scholes Option Pricing Model.

Market approach—The market approach typically employed by our management calculates the enterprise value of a company as a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA") generated by the company for the trailing twelve month period. Adjustments to the company's EBITDA, including those for non-recurring items, may be considered. Multiples are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. We will apply liquidity and other discounts we deem appropriate to equity valuations where applicable. We 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.

Income approach—The income approach typically utilized by our management calculates the enterprise value of a company utilizing a discounted cash flow model incorporating projected future cash flows of the company. Projected future cash flows consider the historical performance of the company as well as current and projected market participant performance. Discount rates are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. We will apply liquidity and other discounts we deem appropriate to equity valuations where applicable.

Asset approach—We consider the asset approach to determine the fair value of significantly deteriorated investments demonstrating circumstances indicative of a liquidation analysis. This situation may arise 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 its debt upon maturity; 3) we believe the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions which may result in the company's inability to meet future obligations; or 4) the portfolio company's reorganization or bankruptcy. Consideration is also given as to whether a liquidation event would be orderly or forced.

We base adjustments upon such factors as the portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, we may base a portfolio company's fair value upon the company's estimated liquidation value. Fair valuations are necessarily subjective, and management's estimate of fair value may differ materially from amounts actually received upon the disposition of its portfolio securities. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

Our general intent is to hold our loans to maturity when appraising its privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment. However, in addition to the previously described analysis involving allocation of value to the debt instrument, we perform a yield analysis to determine if a debt security has been impaired.

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 of each privately-held investment in order to make their own independent assessment. 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.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $8.6 million and $9.0 million as of June 30, 2013 and December 31, 2012, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. As of June 30, 2013 and December 31, 2012, one of our portfolio investments, consisting of 73,666 ordinary shares of OPG, is publicly listed on the NYSE Euronext Paris Exchange.

On a daily basis, we adjust our net asset value for the changes in the value of our publicly held securities, if applicable, and material changes in the value of 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

We intend to comply with the requirements of the Internal Revenue Code necessary for us to qualify as a RIC. So long as we comply with these requirements, we generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. Therefore, we did not record a provision for federal income taxes in our financial statements. As of December 31, 2012, we had a capital loss carry-forward of $29.3 million which may be used to offset future capital gains. We may borrow money from time to time to maintain our status as a RIC under the Internal Revenue Code. See Note 2 for further discussion of our RIC borrowings.

Interest Income Recognition

We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We accrete or amortize 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

We have loans in our portfolio that may pay PIK interest. We add PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and record it as interest income. To maintain the Fund's status as a RIC, we must pay out to our stockholders this non-cash source of income in the form of dividends even if we have not yet collected any cash in respect of such investments.

Current Market Conditions

Overall economic conditions in the United States have improved since 2009, albeit marginally. However, the economic recovery has been hampered by slower growth and persistent high unemployment relative to historical levels. The International Monetary Fund is forecasting minimal growth of 1.75% for the U.S. economy in 2013, with the Congressional Budget Office projecting an unemployment rate exceeding 7.5% at year end. Additionally, future economic expansion and business investment is threatened by perceptions of higher taxes and healthcare costs, as well as the high levels of government deficit spending.

According to a report issued Thompson Reuters, merger and acquisition activity continued its sharp decline during the first six months of 2013 as compared to recent years. Nevertheless, market conditions for business transactions including mergers and acquisitions and private equity investments have improved since 2010, as corporations have been deleveraging and are holding significant amounts of cash and many have begun to focus on acquisitions as part of future growth plans. Private equity activity declined in the second quarter of 2013, but increased overall in the first six months of 2013.

Consistent with other companies in the financial services sector, our performance has been adversely affected. Between December 31, 2008 and December 31, 2012 our net asset value declined from $9.16 per share to $3.11 per share. This further impacted the trading price of our common stock, as it declined approximately 21.9% and 10.4% during 2010 and 2011, respectively, before increasing 5.36% in 2012. As of June 30, 2013, the closing price of our common stock was $1.91, which is a discount of 33.1% to our net asset value.

Over the past several years, we have executed certain initiatives to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and realize certain of our portfolio investments. Specifically, we changed the composition of our Board of Directors and management, terminated certain of our follow-on investments, internalized the management of the Fund, suspended our managed distribution policy, modified our investment strategy to pursue shorter term liquidation opportunities, pursued non-cash investment opportunities, and sold certain of our legacy and underperforming investment holdings. We believe these actions continue to be necessary to protect capital and liquidity during this turbulent economic period in order to preserve and enhance shareholder value. Because our management is internalized, certain of our expenses should not increase commensurate with an increase in the size of the Fund and, therefore, we expect to achieve efficiencies in our cost structure if we are able to grow the Fund.

Liquidity and Capital Resources

We generate cash primarily from maturities, sales of securities and borrowings, as well as capital gains realized upon the sale of portfolio investments. We use cash primarily to make additional investments, either in new companies or as follow-on investments in the existing portfolio companies and to pay the dividends to our stockholders.

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

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

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.

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 capital expenditures through the next twelve months.

Results of Operations

Investment Income and Expense

Net investment loss was $1.4 million and $0.8 million for the three months ended June 30, 2013 and 2012, respectively and $2.1 million and $1.3 million for the six months ended June 30, 2013 and, 2012, respectively. The increase in net investment loss generated at June 30, 2013 compared to June 30, 2012 is due primarily to the decrease in total investment income along with the settlement expense incurred at June 30, 2013.

Total income (loss) from portfolio securities was $0.01 million and $0.2 million for the three months ended June 30, 2013 and 2012, respectively, and ($0.1) million and $0.4 million for the six months ended June 30, 2013 and 2012, respectively. The decrease was primarily due to the decline in income producing investments resulting from the 2012 monetizations of ConGlobal Industries Holding, Inc. and Sovereign Business Forms, Inc., along with the impairment of accrued interest receivable of Spectrum Management, LLC.

Total expenses increased from $1.0 million for the three months ended June 30, 2012 to $1.4 million for the three months ended June 30, 2013. This increase was largely due to the increase in settlement expense the three months ended June 30, 2013. Total expenses increased from $1.7 million for the six months ended June 30, 2012 to $2.1 million for the six months ended June 30, 2013, due primarily to settlement expense.

Realized Gains and Losses on Sales of Portfolio Securities

During the six months ended June 30, 2013, we realized capital losses of $1.8 million due to the asset sale of The Bradshaw Group ("Bradshaw") to PartsNow! LLC. The structure and pricing of the transaction was such that only the Class A preferred shareholders received any proceeds. There were no proceeds to the other equity classes, including the Classes B, D, and E preferred stock and warrants owned by the Fund. The Fund invested in Bradshaw in May 2000 and the Fund's investment has been valued at $0 since 2002.

During the six month ended June 30, 2012, we realized capital losses of $5.2 million, including the following transactions (in thousands):

Portfolio Company	Industry	Type	Transaction Type	Realized Loss
ConGlobal Industries Holding, Inc.	Shipping products and services	Control	Disposition	$(4,114)
Sovereign Business Forms, Inc.	Business products and services	Control	Disposition	(1,073)
Various others			Disposition	(1)
				$(5,188)

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Net unrealized depreciation on investments decreased to $16.0 million during the six months ended June 30, 2013, from a net unrealized depreciation of $17.2 million. Such decrease in unrealized depreciation is largely due to the following changes:

(i) Decrease in fair value of Equus Energy, LLC of $0.1 million due to operating expenses.
(ii) Decrease in fair value of Spectrum Management, LLC of $0.3 million due to a decline in operating performance and $0.2 million in capitalized legal and consulting expenses.
(iii) Transfer of unrealized loss to realized loss of Bradshaw of $1.8 million upon the asset sale of the investment.

Net unrealized depreciation on investments decreased by $1.7 million during the six months ended June 30, 2012, to a net unrealized depreciation of $15.7 million. Such decrease in unrealized depreciation is largely due to the following

changes:

(i) Transfer of unrealized loss to realized loss of ConGlobal Industries Holding, Inc. of $1.6 million upon the divestiture of the investment.

(ii) Transfer of unrealized loss to realized loss of Sovereign Business Forms, Inc. of $0.6 million upon the divestiture of the investment.

(iii) Restructuring of 8,890 4% Orco Germany, S.A. bonds into shares and notes of OPG, with the capitalization of $0.3 million accrued interest resulting in a corresponding decrease in unrealized gain.

Dividends

We will 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 six months ended June 30, 2013, we capitalized legal and consulting expenses of $0.2 million relating to Spectrum Management. We also received a semi-annual interest payment of $0.03 million and a 5.75% partial principal repayment of $9,000 in respect of our €1.2 million [$1.5 million] in OPG notes.

During the six months ended June 30, 2012, we made no follow-on investments, nor realized any significant gains or losses on sales of portfolio securities. However, the Fund capitalized $0.3 million in accrued interest relating to the restructuring of 8,890 4% bonds of Orco Germany S.A. that were ultimately converted into shares and notes of OPG.

Subsequent Events

Management performed an evaluation of the Fund's activity through the date the financial statements were issued, noting the following subsequent event:

On July 30, 2013, pursuant to the settlement agreement with Paula Douglass as described below under *Legal Proceedings*, the Fund made a settlement payment in the amount of $0.4 million.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are 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. In the future, in addition to our investment in OPG shares and the New OPG Notes, we may invest in companies outside the United States, including in Europe and Asia, which would give rise to exposure to foreign currency value fluctuations. We do not use derivative financial instruments to mitigate any of these risks. The return on investments is generally not affected by foreign currency fluctuations.

Our 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 affect 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. We determine their fair values based on the terms of the relevant debt security and the financial condition of the issuer.

A major portion of our 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 stock 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.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one sector called “Energy” includes one portfolio company and was 22.3% of the net asset value and 76.3% of our investments in portfolio company securities (at fair value) as of June 30, 2013. 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 our common stock to a greater extent than would be the case if we 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 Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Fund’s management, with the participation of the Fund’s Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operations of the Fund’s “disclosure controls and procedures” (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2013. Based on their evaluation, the Fund’s Chief 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 June 30, 2013, 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 April 26, 2010, the Securities and Exchange Commission ("SEC") 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.

In January 2006, we sold our 31.5% ownership interest in Champion Window, Inc. ("Champion"), a portfolio company of the Fund, to Atrium Companies Inc. ("Atrium") pursuant to a Stock Purchase Agreement ("SPA") dated December 22, 2005. The SPA contained certain limited rights of indemnification for Atrium in connection with its purchase of such ownership interest.

Atrium filed suit in the District Court of Harris County, Texas against two former officers of Atrium's subsidiary, Champion, alleging, amongst other matters, that the former officers breached their fiduciary duties to Champion by hiring undocumented workers. This action was commenced primarily as a result of an investigation by the U.S. Immigration and Customs Enforcement agency ("ICE") into Atrium's hiring practices. On March 12, 2012, to protect its interests, we filed a Petition in Intervention in the State Court Action seeking a declaration from the Court that Equus did not owe any obligation to indemnify Atrium or Champion for any penalties, costs or fees associated with the investigation by ICE.

On March 16, 2012, Atrium and Champion filed a claim with the American Arbitration Association in Dallas, Texas, against Equus and a number of the other sellers under the SPA.

In the Arbitration Action, Atrium and Champion seek damages arising from Equus' and the other sellers' indemnity obligations set forth in the SPA. Atrium claims it is entitled to indemnification under the SPA for costs it has incurred in responding to an ongoing investigation by ICE. Atrium entered into a Non-Prosecution Agreement with ICE. It appears that one condition of the Non-Prosecution Agreement required Atrium to pay ICE $2,000,000. Atrium and Champion asserted two counts of breach of contract against Equus, both arising out of the alleged obligation to indemnify Atrium and Champion pursuant to certain provisions of the SPA. Atrium and Champion also asserted claims for fraudulent inducement against two former officers and directors of Champion. Through the arbitration, Atrium and Champion seek to recover an unspecified amount in the form of alleged "losses, damages, assessments, penalties, interest, reasonable attorneys' and accountants' fees, settlement costs, and other costs and expenses arising directly or indirectly out of or incident to," the alleged breach of the indemnity provisions in the SPA. As a consequence of their fraudulent inducement claim against the two former officers and directors, Atrium and Champion alternatively seek equitable rescission of the SPA and exemplary damages from the two former officers and

directors.

Atrium and Champion have yet to specify the amount of damages they seek from Equus or the other sellers pursuant to the alleged indemnity obligations under the SPA. Atrium and Champion have disclosed the payment of $2 million to ICE to resolve the investigation and avoid prosecution for their hiring practices.

We intend to vigorously contest the claims and deny that we owe any indemnity obligations to Atrium or Champion and further deny that the Fund is in any way liable to Atrium or Champion. To the extent Atrium and Champion are able to establish a right to an indemnity, we will contest the amount of the claimed indemnity, inasmuch as we believe (among other defenses) that the indemnity obligation can only exist, if at all, with respect to damages arising as a direct and proximate result of employees who were hired prior to the closing date of the 2006 sale of Champion and remained in continuous employment after the 2006 sale, and not to any employee who may have been hired in the six years after the sale.

While we believe the Atrium claim is without merit and we intend to vigorously dispute the claim, there is a reasonable possibility of an adverse ruling which may require the Fund to indemnify Atrium. If Equus is required to indemnify Atrium and Champion, we estimate that such indemnity obligation could vary from $2.0 million to $3.0 million. Pursuant to the SPA, the indemnification obligation of Equus and the other sellers is several and not joint, and any such indemnity, however uncertain, would likely be reduced proportionately to our percentage ownership in Champion at the time of sale, which was 31.5% of Champion’s shares outstanding.

Effective June 13, 2013, the Fund entered into a settlement agreement with Sam Douglass, a former director and executive officer of the Fund, in respect of a claim for indemnification pursuant to the General Corporation Law of Delaware and an indemnification agreement entered into by the Fund with Mr. Douglass on May 3, 2001. The settlement agreement provides for the reimbursement to Mr. Douglass of actual expenses incurred, excluding any fines or penalties, in connection with an enforcement action initiated by the Securities and Exchange Commission against Mr. Douglass in 2009. The settlement payment of $125,000 was made on June 24, 2013.

On August 12, 2012, Paula Douglass filed a lawsuit against the Fund and members of the Board of Directors in the District Court of Harris County, Texas. Ms. Douglass' complaint alleged various causes of action, including minority shareholder oppression, dilution, and breach of fiduciary duty, and sought unspecified damages and attorney's fees. Effective June 13, 2013, the Fund entered into a settlement agreement with Ms. Douglass, Sam Douglass, as well as certain trusts controlled by them. Pursuant to the settlement agreement and in view of the estimated costs of protracted litigation and the associated disruption to the operations of the Fund, the Board of Directors approved a payment of $402,254, in complete settlement of the lawsuit, as being in the best interests of the Fund and its shareholders. The settlement payment was made on July 30, 2013. Ms. Douglass filed a motion to dismiss the lawsuit with prejudice on August 8, 2013.

From time to time, the Fund is also a party to certain 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, we do not expect that these proceedings will have a material effect upon the Fund's financial condition or results of operations.

Item 1A. Risk Factors

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, 2012.

Readers should carefully consider these risks and all other information contained in the annual report on Form 10-K, including the Fund's 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.

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 December 16, 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 its directors and certain officers. [Incorporated by reference to Exhibit 10(d) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.]

(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 Chief Executive Officer

2. Certification by Chief Financial Officer

32. Section 1350 Certifications

1. Certification by Chief Executive Officer

2. Certification by Chief Financial Officer

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.

/s/ John A. Hardy

Date: August 14, 2013

John A. Hardy
Chief Executive Officer

31