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

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

Part I. Financial Information

Item 1. Financial Statements

(in thousands, except per share amounts)	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at $15,717 and $15,479 respectively)	$ 6,847	$ 7,419
Affiliate investments (cost at $350 and $350 respectively)	150	150
Non-affiliate investments (cost at $8,821 and $10,625 respectively)	1,687	1,663
Total investments in portfolio securities at fair value	8,684	9,232
Cash and cash equivalents	20,248	23,687
Accounts receivable from affiliates	356	38
Accounts receivable and other	31	33
Accrued interest receivable	175	293
Total assets	29,494	33,283
Liabilities and net assets		
Accounts payable and accrued liabilities	93	214
Accounts payable to related parties	28	194
Total liabilities	121	408
Commitments and contingencies		
Net assets	$ 29,373	$ 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	(14,133)	(11,408)
Unrealized depreciation of portfolio securities, net	(16,204)	(17,222)
Total net assets	$ 29,373	$ 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	$ 2.78	$ 3.11

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share amounts)	2013	2012	2013	2012
Investment income (loss), net:				
Interest income (loss), net:				
Control investments	$(9)	$(101)	$(166)	$219
Non-affiliate investments	43	—	119	118
Total interest income (loss), net	34	(101)	(47)	337
Interest from temporary cash investments	—	—	—	1
Total investment income (loss), net	34	(101)	(47)	338
Expenses:				
Professional fees	227	273	886	944
Compensation expense	201	177	668	746
Director fees and expenses	104	73	350	323
General and administrative expense	29	45	101	142
Mailing, printing and other expenses	60	13	135	130
Taxes	3	3	11	12
Interest expense	—	—	—	1
Settlement expense	—	—	527	—
Total expenses	624	584	2,678	2,298
Net investment loss	(590)	(685)	(2,725)	(1,960)
Net realized loss:				
Affiliate investments	—	—	—	(5,187)
Non-affiliate investments	—	—	(1,795)	—
Temporary cash investments	—	—	—	(1)
Net realized loss	—	—	(1,795)	(5,188)
Net unrealized depreciation of portfolio securities:				
End of period	(16,204)	(16,735)	(16,204)	(16,735)
Beginning of period	(16,000)	(15,666)	(17,222)	(17,399)
Net change in unrealized depreciation of portfolio securities	(204)	(1,069)	1,018	664
Net decrease in net assets resulting from operations	$(794)	$(1,754)	$(3,502)	$(6,484)
Net decrease in net assets resulting from operations per share:				
Basic and diluted	$(0.08)	$(0.17)	$(0.33)	$(0.61)
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.

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(in thousands)	Nine months ended September 30, 2013	2012
Net decrease in net assets resulting from operations	$(3,502)	$(6,484)
Net assets at beginning of period	32,875	38,148
Net assets at end of period	$29,373	$31,664

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine months ended September 30, 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	$(3,502)	$(6,484)
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	(1,018)	(664)
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(238)	—
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 from affiliates	(318)	(61)
Decrease in accounts receivable and other	2	4
Decrease in accrued interest receivable	118	1,738
(Decrease) increase in accounts payable and accrued liabilities	(121)	49
Decrease in accounts payable to related parties	(166)	(23)
Net cash (used in) provided by operating activities	(3,439)	15,433
Cash flows from financing activities:		
Borrowings under margin account	—	8,000
Repayments under margin account	—	(14,000)
Net cash used in financing activities	—	(6,000)
Net (decrease) increase in cash and cash equivalents	(3,439)	9,433
Cash and cash equivalents at beginning of period	23,687	16,813
Cash and cash equivalents at end of period	$20,248	$26,246
Non-cash operating and financing activities:		
Accrued interest or dividends exchanged for portfolio securities	$—	$301
Supplemental disclosure of cash flow information:		
Interest paid	$—	$1
Income taxes paid	$11	$12

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

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EQUUS TOTAL RETURN, INC.

SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS

(Unaudited)

	Nine months ended September 30,	
	2013	2012
Investment income (loss), net	$(0.01)	$0.03
Expenses	0.25	0.21
Net investment loss	(0.26)	(0.18)
Net realized loss	(0.17)	(0.49)
Net change in unrealized depreciation	0.10	0.06
Net decrease in net assets	(0.33)	(0.61)
Net assets at beginning of period	3.11	3.61
Net assets at end of period, basic and diluted	$2.78	$3.00
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	$1.89	$2.19
Selected information and ratios:		
Ratio of expenses to average net assets	8.60 %	6.58 %
Ratio of net investment loss to average net assets	(8.76 %)	(5.62 %)
Ratio of net decrease in net assets resulting from operations to average net assets	(11.25 %)	(18.58 %)
Total return on market price [1]	(19.92 %)	(2.23 %)

[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.

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

SEPTEMBER 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	$ 6,527
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	216
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]	$ 2,817	2,817	104
					5,667	104
Total Control Investments: Majority-owned (represents 78.9% of total investments at fair value)					$ 15,717	$ 6,847
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 1.7% of total investments at fair value)					$ 350	$ 150
Non-Affiliate Investments (less than 5% owned):						
Infinia Corporation		June 2007			$ 8,000	$ -

Ogden, UT	Alternative energy		115,180 shares common stock (0.06%)			
Orco Property Group Paris, France	Real estate	April 2011	73,666 shares common stock		125	232
			10% Promissory note due 2/18 [(2)]	$ 696	696	1,455
					821	1,687
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 19.4% of total investments at fair value)					$ 8,821	$ 1,687
Total Investment in Portfolio Securities					$ 24,888	$ 8,684

(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.

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS – (Continued)

SEPTEMBER 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 September 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 September 30, 2013 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of **Net Assets**	
Limited liability company investments	$12,900	$6,743	23.0	%
Secured and subordinated debt	3,513	1,559	5.3	%
Common stock	8,475	382	1.3	%
Total	$24,888	$8,684	29.6	%

Interest payments are being received and/or accrued on notes with a fair value of $1.5 million, while accrued interest has been impaired on notes receivable included in secured and subordinated debt with a fair value of $0.1 million.

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

Industry	Fair Value	Fair Value as Percentage of **Net Assets**	
Energy	$6,527	22.2	%
Real estate	1,687	5.8	%
Media	216	0.7	%
Shipping products and services	150	0.5	%
Business products and services	104	0.4	%
Total	$8,684	29.6	%

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

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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	-
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.

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 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 nine months ended September 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 September 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 September 30, 2013, we had cash and cash equivalents of $20.2 million. We had $8.7 million of our net assets of $29.4 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 September 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 September 30, 2013 and December 31, 2012, respectively.

Certain Risks and Uncertainties—Economic conditions for the past five years and resulting market volatility and dislocations have resulted in a significant decline in the availability of debt and equity for small and medium-sized enterprises, which comprise our target investment market. 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 nine 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 16.8% and 15.4% of our investments in portfolio securities as of September 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). To the extent costs are incurred during the first year, the investment may be adjusted. 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 $8.5 million and $9.0 million as of September 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 September 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.

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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 September 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 September 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	$6,847	$—	$ —	$ 6,847
Affiliate investments	150	—	—	150
Non-affiliate investments	1,687	232	—	1,455
Total investments	$8,684	$232	$ —	$ 8,452

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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:

		Fair Value Measurements as of December 31, 2012		
(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	$7,419	$—	$ —	$ 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 nine months ended September 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)	(810)	—	1,834	1,024
Purchases of portfolio securities	238	—	—	238
Proceeds from sales/dispositions	—	—	(9)	(9)
Fair value as of September 30, 2013	$6,847	$ 150	$ 1,455	$8,452

The following table provides a reconciliation of fair value changes during the nine months ended September 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 gains (losses)	(5,187)	—	—	(5,187)
Change in unrealized appreciation (depreciation)	1,891	—	(473)	1,418
Purchases of portfolio securities			301	301
Proceeds from sales/dispositions	(9,627)	—	—	(9,627)
Transfers in (out) of Level 3	—	—	(3,149)	(3,149)
Fair value as of September 30, 2012	$375	$ 150	$ 2,413	$2,938

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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 September 30, 2013:

(in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range	
				Minimum	Maximum
Secured and subordinated debt	$1,559	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	6,743	Asset Approach	Recovery rate	0 %	100 %
	$8,452				

(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 $56,250 for each of the nine months ended September 30, 2013 and 2012.

Accounts receivable from affiliates represents payments made on behalf of our portfolio companies. For the nine months ended September 30, 2013 and 2012, the receivables totaled $0.4 million and less than $0.1 million, respectively.

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. This amount was accrued in the Statement of Operations as of June 30, 2013 and the settlement payment was made on July 30, 2013. Ms. Douglass filed a motion to dismiss the lawsuit with prejudice on August 8, 2013.

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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 nine months ended September 30, 2013, we capitalized legal and consulting expenses of $0.2 million relating to Spectrum Management, LLC. We also received semi-annual interest payments totaling $0.07 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 nine months ended September 30, 2013, we realized capital losses of $1.8 million due to the asset sale by 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.

Net unrealized depreciation on investments decreased to $16.2 million during the nine months ended September 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 $0.3 million due to a net operating loss for the period equal to the amount of the decrease.

(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 of $1.8 million in connection with Bradshaw's sale of all of its assets.

During the nine months ended September 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 nine months ended September 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 $0.7 million during the nine months ended September 30, 2012, to a net unrealized depreciation of $16.7 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 disposition of the investment.

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

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(iii) Restructuring of the Orco Germany, S.A. bonds with the capitalization of $0.3 million accrued interest resulting in a corresponding decrease in unrealized gain, along with a $0.9 million decline in the fair value of the resulting new securities, notes and ordinary shares of Orco Property Group S.A.

(iv) Decrease in fair market value of Spectrum Management, LLC of $0.2 million due to a continued decline in operating performance.

(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 129 producing and non-producing oil and gas wells. The working interests include associated development rights of approximately 23,000 acres situated on 13 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 Chevron USA, Inc., 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 Chevron 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 and a second recompletion was commenced during the third quarter of 2013, with additional recompletions anticipated 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 located in the area known as the "Eagle Ford Shale" play.

Revenue and Income. Equus Energy generated operating revenue and expenses of $551,688 and $231,987, respectively, for the three months ending September 30, 2013. For the nine months ended September 30, 2013, operating revenue and expenses were $1,757,854 and $884,072, respectively. Revenue exceeded direct operating expenses by $320,000 and $874,000 for the three and nine months ended September 30, 2013. For the three and nine months ended September 30, 2013, net operating cash flow was $99,000 and $840,000, respectively. After factoring in depletion, depreciation, and amortization costs, as well as G&A costs, Equus Energy generated a net loss of $198,519 for the three months ended September 30, 2013 and a net loss of $328,816 for the nine months ended September 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 completed projects (a fourth project, the recompletion of the EB Cope #6 well, commenced in August 2013 is described below):

(a) Recompletion of the Mahaffey #1 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 and came on-line in January 2013. For the nine-month period ended September 30, 2013, the Mahaffey well generated, net to Equus Energy, approximately $126,600 and $92,549 in gross revenue and operating income, respectively.

(b) 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 until September 30, 2013, this well has generated $227,800 and $212,757 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.

(c) Recompletion of the Hurta #3 Oil Well in the Needville Field ($8,360). The Hurta #3 well was recompleted in late July 2013. Since being put into production until September 30, 2013, this well has generated $71,278 and $48,606 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.

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Commencing in August 2013, Chevron began recompletion efforts in respect of the EB Cope #6 well located in the Conger Field. Equus Energy's contribution for the recompletion was estimated by Chevron at $314,800. As of September 30, 2013, Equus Energy has incurred $117,396 in capital expenditures for this recompletion.

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 condensed consolidated financial information for Equus Energy as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 (in thousands):

EQUUS ENERGY, LLC.

Condensed Consolidated Balance Sheets

	September 30, 2013 (Unaudited)	December 31, 2012 (Unaudited)
Assets		
Current assets		
Cash	$ 475	$ 175
Accounts receivable	240	453
Total current assets	715	628
Oil and gas properties	7,439	6,899
Less: accumulated depletion, depreciation and amortization	(753)	—
Net oil and gas properties	6,686	6,899
Total assets	$ 7,401	$ 7,527
Liabilities and members' capital		
Current liabilities		
Accounts payable and other	$ 351	$ 489
Due to affiliate	347	10
Total current liabilities	698	499

Asset retirement obligations	177	173
Total non-current liabilities	177	173
Total liabilities	865	672
Members' capital		
Total members' capital	6,526	6,855
Total liabilities and members' capital	$ 7,401	$ 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 of Equus Energy in the producing oil and natural 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.

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EQUUS ENERGY, LLC.

Consolidated Statement of Operations

	Three months ended September 30, 2013 (Unaudited)	Nine months ended September 30, 2013 (Unaudited)
Operating revenues	$ 552	$ 1,758
Operating expenses		
Direct operating expenses	232	884
Depletion, depreciation, amortization, and accretion	240	757
General and administrative	265	424
Total other operating expenses	737	2,065
Operating loss before income tax expense	(185)	(307)
Income tax	14	22
Net loss	$ (199)	$ (329)

EQUUS ENERGY, LLC.

Consolidated Statement of Cash Flows

	Nine months ended September 30, 2013 (Unaudited)
Cash flows from operating activities:	
Net loss	(329)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depletion, depreciation, amortization, and accretion	757
Changes in operating assets and liabilities:	

Accounts receivable	213
Affiliate payable/receivable	337
Accounts payable and other	(138)
Net cash provided by operating activities	840
Cash flows from investing activities:	
Investment in oil & gas properties	(540)
Net cash used in investing activities	(540)
Cash flows from financing activities:	
Member contributions	—
Net cash provided by (used in) financing activities	—
Net increase in cash	300
Cash and cash equivalents at beginning of period	175
Cash and cash equivalents at end of period	475

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 $0.8 million for the nine months ending September 30, 2013.

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

(a) 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 nine months ended September 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) Recent Accounting Pronouncements

In June 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-08, Financial Services—Investment Companies. ASU 2013-08 provides clarifying guidance to determine if an entity qualifies as an investment company. ASU 2013-08 also requires an investment company to measure non-controlling interests in other investment companies at fair value. The following disclosures will also be required upon adoption of ASU 2013-08: (i) whether an entity is an investment company and is applying the accounting and reporting guidance for investment companies; (ii) information about changes, if any, in an entity's status as an investment company; and (iii) information about financial support provided or contractually required

to be provided by an investment company to any of its investees. The requirements of ASU 2013-08 are effective for the Company beginning in the first quarter of 2014. The Company is currently evaluating the impact, if any, that these updates will have on its financial condition or results of operations.

(9) 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 November 7, 2013, the Fund made a short-term working capital loan of $0.5 million to Security Monitor Holdings, LLC ("SMH"). SMH is a company which specializes in managing and improving operations of distressed companies. The loan has a six month term and bears interest at 14% per annum. It is secured by certain real property and a personal guarantee of the principal of SMH.

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 16.8% and 15.4% of our investments in portfolio securities as of September 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 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 $8.5 million and $9.0 million as of September 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 September 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 of which $15.6 million will expire after 2017, and remaining $13.7 million can be carried over indefinitely 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 generally improved over the past several years, albeit marginally. However, the economic recovery has been hampered by slower growth and persistent high unemployment relative to historical levels. Due to the U.S. government shutdown in October 2013, GDP results published by the U.S. Department of Commerce for the third quarter of 2013 are not presently available. Other data, such as manufacturing output and sales of existing homes, suggest that the U.S. economy is slowing in the second half of 2013. The International Monetary Fund has reduced its growth forecast for the U.S. economy in 2013 from 1.75% to 1.6%, with the Congressional Budget Office projecting an unemployment rate exceeding 7.5% through the end of 2014. 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.

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.

Consistent with other smaller 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 September 30, 2013, the closing price of our common stock was $1.89, which is a discount of 32.0% 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 $0.6 million and $0.7 million for the three months ended September 30, 2013 and 2012, respectively and $2.8 million and $2.0 million for the nine months ended September 30, 2013 and, 2012, respectively. While there is relatively no change for the three months ended September 30, 2013 and 2012, the increase in net investment loss generated for the nine months ended September 30, 2013 compared to September 30, 2012 is due primarily to the decrease in total investment income along with the settlement expense incurred during the nine months ended September 30, 2013.

Total investment income (loss) was $0.03 million and ($0.1) million for the three months ended September 30, 2013 and 2012, respectively, and ($0.05) million and $0.3 million for the nine months ended September 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 remained relatively unchanged for the three months ended September 30, 2013 and September 30, 2012 at $0.6 million. Total expenses increased from $2.3 million for the nine months ended September 30, 2012 to $2.7 million for the nine months ended September 30, 2013, due primarily to settlement expenses.

Realized Gains and Losses on Sales of Portfolio Securities

During the nine months ended September 30, 2013, we realized capital losses of $1.8 million due to the asset sale by 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.

During the nine months ended September 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 $16.2 million during the nine months ended September 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 $0.3 million due to a net operating loss for the period equal to the amount of the decrease.

(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 of $1.8 million in connection with Bradshaw's sale of all of its assets.

Net unrealized depreciation on investments decreased $0.7 million during the nine months ended September 30, 2012, to a net unrealized depreciation of $16.7 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 disposition of the investment.

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

(iii) Restructuring of the Orco Germany, S.A. bonds with the capitalization of $0.3 million accrued interest resulting in a corresponding decrease in unrealized gain, along with a $0.9 million decline in the fair value of the resulting new securities, notes and ordinary shares of Orco Property Group S.A.

(iv) Decrease in fair market value of Spectrum Management, LLC of $0.2 million due to a continued decline in operating performance.

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 nine months ended September 30, 2013, we capitalized legal and consulting expenses of $0.2 million relating to Spectrum Management, LLC. We also received semi-annual interest payments totaling $0.07 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 nine months ended September 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 November 7, 2013, the Fund made a short-term working capital loan of $0.5 million to Security Monitor Holdings, LLC ("SMH"). SMH is a company which specializes in managing and improving operations of distressed companies.

The loan has a six month term and bears interest at 14% per annum. It is secured by certain real property and a personal guarantee of the principal of SMH.

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 shares and notes of OPG, 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 22.2% of the net asset value and 75.2% of our investments in portfolio company securities (at fair value) as of September 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 we file or submit 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 our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our 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 September 30, 2013. Based on their evaluation, our 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 September 30, 2013, that has materially affected, or is reasonably likely to materially affect, the Fund’s internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

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, more than five years after the sale of our Champion interest, 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 September 2013, all of Atrium and Champion’s claims including claims against its former officers described above, were also consolidated in the Arbitration Action.

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 are required to file an answer to Atrium and Champion's claims on December 6, 2013. 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.	<u>Certification by Chief Executive Officer</u>
2.	<u>Certification by Chief Financial Officer</u>

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: November 14, 2013

John A. Hardy
Chief Executive Officer

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