
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period _____ to _____

Commission File Number 814-00098

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0345915
(I.R.S. Employer
Identification No.)

Eight Greenway Plaza, Suite 930 Houston, Texas
(Address of principal executive offices)

77046
(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 No

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

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

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

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

There were 10,561,646 shares of the registrant's common stock, \$.001 par value, outstanding, as of May 16, 2011.

EQUUS TOTAL RETURN, INC.
(A Delaware Corporation)

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EQUUS TOTAL RETURN, INC.
BALANCE SHEETS

	<u>March 31,</u> <u>2011</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2010</u>
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$34,186 and \$34,231 respectively)	\$ 16,654	\$ 17,576
Affiliate investments (cost at \$350 and \$923 respectively)	50	762
Non-affiliate investments (cost at \$9,795 and \$19,808 respectively)	150	9,324
Total investments in portfolio securities at fair value	16,854	27,662
Cash and cash equivalents	17,165	7,382
Restricted cash and temporary cash investments	6,060	15,150
Accounts receivable and other	43	273
Accrued interest receivable	2,422	2,724
Deferred offering costs	415	263
Total assets	42,959	53,454
Liabilities and net assets		
Accounts payable and accrued liabilities	591	345
Accounts payable - related parties	35	58
Borrowing under margin account	6,000	15,000
Total liabilities	6,626	15,403
Commitments and contingencies (Note 1)		
Net assets	\$ 36,333	\$ 38,051
Net assets consist of:		
Common stock, par value	\$ 9	\$ 9
Capital in excess of par value	69,742	70,597
Undistributed net investment losses	(5,941)	(5,255)
Unrealized depreciation of portfolio securities, net	(27,477)	(27,300)
Total net assets	\$ 36,333	\$ 38,051
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	8,862	8,862
Shares of preferred stock issued and outstanding, \$.001 par value, 5,000 shares authorized	—	—
Net asset value per share	\$ 4.10	\$ 4.29

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

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

(in thousands, except per share amounts)	Three months ended March 31,	
	2011	2010
Investment income:		
Interest and dividend income:		
Control investments	\$ 316	\$ 304
Affiliate investments	4	13
Non-affiliate investments	112	530
Total interest and dividend income	432	847
Interest from temporary cash investments	7	4
Total investment income	439	851
Expenses:		
Compensation expense	492	348
Professional fees	339	344
Settlement expense	120	—
Director fees and expenses	82	100
Mailing, printing and other expenses	41	29
General and administrative expense	51	44
Interest expense	—	9
Taxes	—	24
Total expenses	1,125	898
Net investment loss	(686)	(47)
Net realized gain (loss):		
Affiliate investments	138	—
Non-affiliate investments	(992)	—
Temporary cash investments	(1)	(4)
Net realized loss	(855)	(4)
Net unrealized depreciation of portfolio securities:		
End of period	(27,477)	(15,926)
Beginning of period	(27,300)	(15,227)
Net change in unrealized depreciation of portfolio securities	(177)	(699)
Net decrease in net assets resulting from operations	\$ (1,718)	\$ (750)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	\$ (0.19)	\$ (0.08)
Weighted average shares outstanding		
Basic and diluted	8,862	8,862

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

EQUUS TOTAL RETURN, INC.
STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

(in thousands)	Three months ended	
	March 31,	
	2011	2010
Net decrease in net assets resulting from operations	\$ (1,718)	\$ (750)
Net assets at beginning of period	38,051	50,901
Net assets at end of period	\$ 36,333	\$ 50,151

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

EQUUS TOTAL RETURN, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Three months ended March 31,	
	2011	2010
Reconciliation of decrease in net assets resulting from operations to net cash provided by operating activities:		
Net decrease in net assets resulting from operations	\$ (1,718)	\$ (750)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities		
Net realized loss	855	4
Net change in unrealized depreciation of portfolio securities	177	699
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(35)	(200)
Net proceeds from dispositions of portfolio securities	9,731	—
Principal payments received from portfolio securities	80	122
Sales of temporary cash investments	9,090	9,086
(Increase) decrease in accounts receivable and other	230	(5)
(Increase) decrease in accrued interest receivable	302	(461)
Increase in accounts payable and accrued liabilities	246	154
Decrease in accounts payable-related parties	(23)	—
Net cash provided by operating activities	18,935	8,649
Cash flows from financing activities:		
Borrowings under margin account	6,000	20,999
Repayments under margin account	(15,000)	(29,999)
Cash paid for deferred offering costs	(152)	—
Net cash used in financing activities	(9,152)	(9,000)
Net increase (decrease) in cash and cash equivalents	9,783	(351)
Cash and cash equivalents at beginning of period	7,382	6,045
Cash and cash equivalents at end of period	\$ 17,165	\$ 5,694
Non-cash operating and financing activities:		
Accrued interest or dividends exchanged for portfolio securities	\$ —	\$ 165
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4	\$ 7
Income taxes paid	\$ —	\$ 24

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

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

	Three months ended	
	March 31,	
	2011	2010
Investment income	\$ 0.05	\$ 0.10
Expenses	0.13	0.10
Net investment loss	(0.08)	—
Net realized loss	(0.09)	—
Net change in unrealized depreciation	(0.02)	(0.08)
Net decrease in net assets	(0.19)	(0.08)
Net assets at beginning of period	4.29	5.74
Net assets at end of period, basic and diluted	\$ 4.10	\$ 5.66
Weighted average number of shares outstanding during period,		
in thousands	8,862	8,862
Market price per share		
Beginning of period	\$ 2.50	\$ 3.20
End of period	\$ 2.60	\$ 2.81
Total Return ⁽¹⁾	4.00%	(12.19)%
Selected ratios:		
Ratio of expenses to average net assets	3.02%	1.78%
Ratio of net investment loss to average net assets	(1.84)%	(0.09)%
Ratio of net decrease in net assets resulting from operations to average net assets	(4.62)%	(1.48)%

(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.

EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS
March 31, 2011
(Unaudited)
(in thousands, except share data)

<u>Name and Location of Portfolio Company</u>	<u>Industry</u>	<u>Date of Initial Investment</u>	<u>Investment</u>	<u>Principal</u>	<u>Cost of Investment</u>	<u>Fair Value(1)</u>
Control investments: Majority-owned (6):						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		\$4,000	\$1,162
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%) 8% promissory notes due 9/14(5)	\$10,009	65 10,009	- -
					10,074	-
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock (64.66% / 55.00% Fully Diluted) 12% subordinated promissory notes due 5/13(2)	2,662	5,080 2,662	3,928 2,662
					7,742	6,590
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (81% Fully Diluted) 16% subordinated promissory notes due 5/11(2)(3)	2,150	2,850 2,150	- 1,867
					5,000	1,867
Total Control investments: Majority-owned (represents 42.1% of total investments at fair value)					\$26,816	\$9,619
Control Investments: Non-majority owned(7):						
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock (34.2%) 7% subordinated promissory note due 12/12(3)	\$6,000	\$1,370 6,000	\$1,035 6,000
					7,370	7,035
Total Control Investments: Non-majority Owned (represents 30.8% of total investments at fair value)					\$7,370	\$7,035
Total Control Investments: (represents 72.9% of total investments at fair value)					\$34,186	\$16,654
Affiliate Investments(8):						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (20% / 18.70% Fully Diluted)		\$350	\$50
Total Affiliate Investments (represents 0.2% of total investments at fair value)					\$350	\$50

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

EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS – (Continued)
March 31, 2011
(Unaudited)
(in thousands, except share data)

<u>Name and Location of Portfolio Company</u>	<u>Industry</u>	<u>Date of Initial Investment</u>	<u>Investment</u>	<u>Principal</u>	<u>Cost of Investment</u>	<u>Fair Value(1)</u>
Non-Affiliate Investments (less than 5% owned):						
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	115,180 shares common stock (0.63%) Option to purchase 16,000 shares of common stock at \$6.50 per share through 12/12		\$8,000	\$-
					-	-
					8,000	-
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% 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	-
					-	-
					-	-
					-	-
					-	-
					-	-
					1,795	-
Trulite, Inc. Columbia, SC	Alternative energy	August 2008	Warrants to buy 8,934,211 shares of common stock through at \$0.01 - \$0.38 per share through 11/15		-	150
					-	-
Total Non-Affiliate Investments (represents 0.7% of total investments at fair value)					\$9,795	\$150
Total Portfolio Securities					\$44,331	\$16,854
Temporary Cash Investments						
U.S. Treasury Bill (9)	Government	April 2011	UST 0% due 4/11	\$6,000	\$6,000	\$6,000
Total Temporary Cash Investments (represents 26.2% of total investments at fair value)					\$6,000	\$6,000
Total Investments					\$50,331	\$22,854

- (1) See Note 3 to the financial statements, Valuation of Investments.
- (2) Income-producing.
- (3) Income on these securities is accrued to maturity.
- (4) Income on these securities is paid-in-kind by the issuance of additional securities, or through accretion of original issue discount.
- (5) Non-income producing.
- (6) 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.
- (7) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which we own more than 25% but not more than 50% of the voting securities of the company.
- (8) 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.
- (9) The Fund has included U.S. Treasury Bills in "Restricted Cash and Temporary Cash Investments" on the balance sheet.

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

EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS – (Continued)
March 31, 2011
(Unaudited)

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.

As defined in the Investment Company Act of 1940, as of March 31, 2011 all of our investments were in eligible portfolio companies. We provide significant managerial assistance to portfolio companies that comprise 100% of the total value of the investments in portfolio securities as of March 31, 2011.

Our investments in portfolio securities consist of the following types of securities as of March 31, 2011 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	\$ 20,821	\$ 10,529	29.0%
Common stock	14,800	5,013	13.8%
Limited liability company investments	6,915	1,162	3.2%
Options and warrants	—	150	0.4%
Preferred stock	1,795	—	0.0%
Total	<u>\$ 44,331</u>	<u>\$ 16,854</u>	<u>46.4%</u>

Cash payments of interest are currently being received and/or accrued on secured and subordinated debt, aggregating \$10.5 million in fair value while notes with a cost basis of \$10 million and a fair value of \$0 are non-income producing.

The following is a summary by industry of the Fund's investments in portfolio securities as of March 31, 2011 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Business products and services	\$ 8,457	23.3%
Shipping products and services	7,085	19.5%
Media	1,162	3.2%
Alternative energy	150	0.4%
Entertainment and leisure	-	-
Total	<u>\$ 16,854</u>	<u>46.4%</u>

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

EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2010
(in thousands, except share data)

<u>Name and Location of Portfolio Company</u>	<u>Industry</u>	<u>Date of Initial Investment</u>	<u>Investment</u>	<u>Principal</u>	<u>Cost of Investment</u>	<u>Fair Value(1)</u>
Control investments: Majority-owned (6):						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		\$4,000	\$1,163
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%) 8% promissory notes due 9/14(5)	10,009	65 10,009	- -
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock (64.66% / 55.00% Fully Diluted) 12% subordinated promissory notes due 5/13(2)	2,742	5,080 2,742	3,894 2,742
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (81% Fully Diluted) 16% subordinated promissory notes due 5/11(2)(3)	2,115	2,850 2,115	- 1,422
Total Control investments: Majority-owned (represents 21.6% of total investments at fair value)					\$26,861	\$9,221
Control Investments: Non-majority owned(7):						
ConGlobal Industries Holding, Inc. San Romon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock (34.2%) 7% subordinated promissory note due 12/12(3)	6,000	\$1,370 6,000	\$2,355 6,000
Total Control Investments: Non-majority Owned (represents 19.6% of total investments at fair value)					\$7,370	\$8,355
Total Control Investments: (represents 41.2% of total investments at fair value)					\$34,231	\$17,576
Affiliate Investments(8):						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (20% / 18.70% Fully Diluted)		\$350	\$50
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.24%)		573	712
Total Affiliate Investments (represents 1.8% of total investments at fair value)					\$923	\$762

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

EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS – (Continued)
DECEMBER 31, 2010
(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.

As defined in the Investment Company Act of 1940, as of December 31, 2010 all of our investments were in eligible portfolio companies. We provide significant managerial assistance to portfolio companies that comprise 78.5% of the total value of the investments in portfolio securities as of December 31, 2010.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2010 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	\$ 30,879	\$ 19,348	50.8%
Common stock	14,800	6,299	16.6%
Limited liability company investments	7,488	1,875	4.9%
Options and warrants	—	140	0.4%
Preferred stock	1,795	—	0.0%
Total	<u>\$ 54,962</u>	<u>\$ 27,662</u>	<u>72.7%</u>

Three notes receivable included in secured and subordinated debt with an estimated fair value of \$9.2 million provide that all or a portion of interest is paid-in-kind, by adding such amount to the principal of the notes. For the remainder of secured and subordinated debt, cash payments of interest are currently being received and/or accrued on notes aggregating \$10.1 million in fair value, while notes with a cost basis of \$10 million and a fair value of \$0 are non-income producing.

The following is a summary by industry of our investments in portfolio securities as of December 31, 2010 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Entertainment and leisure	\$ 9,184	24.1%
Shipping products and services	8,405	22.1%
Business products and services	8,058	21.2%
Media	1,163	3.1%
Healthcare	712	1.8%
Alternative energy	140	0.4%
Total	<u>\$ 27,662</u>	<u>72.7%</u>

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

EQUUS TOTAL RETURN, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 AND 2010
(Unaudited)

(1) Description of Business and Basis of Presentation

Description of Business—Equus Total Return, Inc. (“we,” “us,” “our,” “Equus” the “Company” and the “Fund”), a Delaware corporation, was formed by Equus Investments II, L.P. (the “Partnership”) on August 16, 1991. On July 1, 1992, the Partnership was reorganized and all of the assets and liabilities of the Partnership were transferred to the Fund in exchange for shares of common stock of the Fund. Our shares trade on the New York Stock Exchange under the symbol EQS. On August 11, 2006, our shareholders approved the change of the Fund’s investment strategy to a total return investment objective. This 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 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. We seek to invest primarily in companies which intend to grow either by acquiring other businesses, including leveraged buyouts, or organically. We may also invest in recapitalizations of existing businesses or special situations from time to time. Our investments in portfolio companies consist of equity securities such as common and preferred stock, but also include other equity-oriented securities such as debt convertible into common or preferred stock or debt combined with warrants, options or other rights to acquire common or preferred stock. We elected to be treated as a business development company under the Investment Company Act of 1940 (“1940 Act”). For tax purposes, we have elected to be treated as a regulated investment company (“RIC”). With shareholder approval on June 30, 2005, we entered into a new investment advisory agreement with Moore Clayton Capital Advisors, Inc. (the “Adviser”). Prior to this agreement, our adviser was Equus Capital Management Corporation. On June 12, 2009, our board of directors announced plans to “internalize” Fund management. Our investment advisory agreement with the Adviser terminated on June 30, 2009. The Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to the Fund under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered.

Effective August 11, 2006, we began to employ a total return investment style. The total return style combines both growth and income investments and is intended to strike a balance between the potential for gain and the risk of loss. In the growth category, we are a “growth-at-reasonable-price” investor. We invest primarily in privately owned companies and are open to virtually any potential growth investment in the privately owned arena. However, our primary aim is to identify and acquire only those equity securities that meet our criteria for selling at reasonable prices. The income investments made consist principally of purchasing debt financing with the objective of generating regular interest income as well as long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

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

The results of operations for the three months ended March 31, 2011 are not necessarily indicative of results that ultimately may be achieved for the year. The interim unaudited consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund’s Form 10-K for the fiscal year ended December 31, 2010, as filed with the Security and Exchange Commission (“SEC”). Certain prior period information has been reclassified to conform to current year presentation.

(2) Liquidity and Financing Arrangements

Liquidity—There are several factors that may materially affect the Fund’s liquidity during the reasonably foreseeable future. The Fund views this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e.*, the period through March 31, 2011.

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 Temporary Investments—As of March 31, 2011, we had cash and cash equivalents of \$17.2 million. We had \$16.9 million of our net assets of \$36.3 million invested in portfolio securities. Temporary cash investments of \$6.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain our pass-through tax treatment. Restricted cash amounted to \$0.06 million for the required 1% brokerage deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on April 1, 2011.

As of December 31, 2010, we had cash and cash equivalents of \$7.4 million. We had \$27.7 million of our net assets of \$38.1 million invested in portfolio securities. Temporary cash investments of \$15.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain our pass-through tax treatment. Restricted cash amounted to \$0.2 million for the required 1% brokerage deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on January 3, 2011.

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

Revolving Line of Credit Agreement—Effective September 8, 2010, the Fund terminated its revolving line of credit agreement (the “Credit Facility”) with Amegy Bank of Texas. The Credit Facility was secured by substantially all of the Fund’s portfolio assets and securities. The Fund did not borrow any amounts under the Credit Facility.

Investment Commitments—As of March 31, 2011, we had total commitments of \$0.3 million committed to Spectrum Management, LLC, which is in the business products and services industry.

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 Investments—As of March 31, 2011 and December 31, 2010, we borrowed sufficient funds to maintain the Fund’s RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If 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 material to us and our stockholders.

As of March 31, 2011, we borrowed \$6.0 million to make qualifying investments to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of \$6.1 million. The U.S. Treasury bills were sold and the total amount borrowed was repaid on April 1, 2011.

As of December 31, 2010, we borrowed \$15.0 million to make qualifying investments to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary cash investments in U.S. Treasury bills of \$15.2 million. The U.S. Treasury bills were sold on January 3, 2011 and the total amount borrowed was repaid at that time.

Certain Risks and Uncertainties— Economic conditions during 2010 and 2009 and market dislocations resulted in the availability of debt and equity capital declining significantly. 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, the price of our common stock continues to trade below our net asset value, limiting our ability to raise equity capital. Because of these challenges, our near-term strategies shifted from originating debt and equity investments to preserving liquidity and seeking liquidity events to meet our operational needs. Key initiatives we are pursuing to improve liquidity include monetizations and the suspension of dividends. Although there can be no

assurances that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our 2011 operating requirements.

(3) Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires 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 Securities and Exchange Commission (“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.

During the first twelve months after an investment is made, the original investment value is utilized to determine the fair value unless significant developments have occurred during this twelve month period which would indicate a material effect on the portfolio company (such as results of operations or changes in general market conditions). After the twelve month period, or if material events have occurred within the twelve month period, 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, Fund 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 Fund 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. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable. The Fund may also use, when available, third-party transactions in a portfolio company’s securities as the basis of valuation (the “private market method”). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

Income approach – The income approach typically utilized by Fund 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. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable.

Asset approach – The Fund considers the asset approach during the first twelve months after and investment is made, the Fund considers 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 the its debt upon maturity; 3) Fund management believes the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions may result in the company’s inability to meet future obligations; or 4) the portfolio company’s reorganization or bankruptcy. Consideration is also given as to whether a liquidation event would be orderly or forced.

Fund management considers that the Fund’s general intent is to hold its loans to maturity when appraising its privately held debt investments. As such, Fund management believes 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, the Fund performs a yield analysis to determine if a debt security has been impaired.

Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

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 \$16.9 million and \$27.7 million as of March 31, 2011 and December 31, 2010, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. There were no publicly traded securities as of March 31, 2011 or December 31, 2010.

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*.

Deferred Offering Costs—Accumulation of costs related to the offering whereby we will sell additional shares or rights to acquire shares at a market price that may have been below net asset value. The main components of the costs are legal fees and consultant’s fees specifically related to the offering.

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

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

Interest Income Recognition—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 accrete or amortizes discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost

of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities. We stop accruing interest on investments when we determine that interest is no longer collectible. If the Fund receives any cash after determining that interest is no longer collectible, it treats such cash as payment on the principal balance until the entire principal balance has been repaid, before it recognizes any additional interest income.

Payment in Kind Interest (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

recorded 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.

Income Taxes—We intend to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gains) which is distributed to stockholders. Therefore, no provision for federal income taxes is recorded in the financial statements. 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 the Fund’s RIC borrowings.

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.

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

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 management’s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are debt, warrants and/or other equity investments held in a private company. As previously described, 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, Fund management considers three different valuation approaches: a market approach, an income approach, 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. 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 March 31, 2011, 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:

<i>(in thousands)</i>	Total	Fair Value Measurements As of March 31, 2011		
		Quoted Prices in Active Markets	Significant Other Observable	Significant Unobservable

		for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Assets				
Investments:				
Control investments	\$ 16,654	\$ —	\$ —	\$ 16,654
Affiliate investments	50	—	—	50
Non-Affiliate investments	150	—	—	150
Total Investments	16,854	—	—	16,854
Temporary Cash Investments	6,000	6,000	—	—
Total Investments and Temporary Cash Investments	\$ 22,854	\$ 6,000	\$ —	\$ 16,854

As of December 31, 2010, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

Fair Value Measurements As of December 31, 2010				
<i>(in thousands)</i>	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	\$ 17,576	\$ —	\$ —	\$ 17,576
Affiliate investments	762	—	—	762
Non-Affiliate investments	9,324	—	—	9,324
Total Investments	27,662	—	—	27,662
Temporary Cash Investments	15,000	15,000	—	—
Total Investments and Temporary Cash Investments	\$ 42,662	\$ 15,000	\$ —	\$ 27,662

The following table provides a reconciliation of fair value changes during the three months ending March 31, 2011 for all investments for which we determine fair value using unobservable (Level 3) factors:

<i>(in thousands)</i>	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2010	\$ 17,576	\$ 762	\$ 9,324	\$ 27,662
Unrealized appreciation (depreciation)	(877)	(139)	839	(177)
Issuances	35	—	—	35
Settlements	(80)	(573)	(10,013)	(10,666)
Fair value as of March 31, 2011	\$ 16,654	\$ 50	\$ 150	\$ 16,854

The following table provides a reconciliation of fair value changes during the three months ending March 31, 2010 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2009	\$ 28,729	\$ 2,128	\$ 11,554	\$42,411
Change in unrealized appreciation (depreciation)	119	(818)	—	(699)
Purchases, issuances and settlements, net	(122)	—	365	243
Fair value as of March 31, 2010	\$ 28,726	\$ 1,310	\$ 11,919	\$41,955

(4) Related Party Transactions and Agreements

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

As compensation for services to the Fund, each Independent Director receives an annual fee of \$20,000 paid quarterly in arrears, a fee of \$2,000 for each meeting of the Board of Directors attended in person, a fee of \$1,000 for participation in each telephonic meeting of the Board and a fee of \$1,000 for each committee meeting attended, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. A quarterly fee of \$2,500 is paid to the Chairman of the Audit Committee and a quarterly fee of \$3,750 is paid to the Chairman of the Independent Directors. The Fund incurred \$0.08 million and \$0.1 million as of March 31, 2011 and March 31, 2010 respectively.

In respect of services provided to the Fund by members of the Board not in connection with their roles and duties as directors, the Fund shall pay a rate of \$250 per hour for services rendered. The Fund incurred \$0.05 million which is included in compensation expense as of March 31, 2011 in the statement of operations and \$0.03 million which is included in deferred offering costs on the balance sheet as of March 31, 2011 for services provided by Kenneth I. Denos, Secretary of the Fund.

On December 17, 2010, the Fund entered into a consulting (“Consulting Agreement”) with John A. Hardy, the Fund’s Executive Chairman. The Consulting Agreement provides for base compensation to Mr. Hardy of \$200,000 per annum, commencing June 1, 2010, and a bonus based upon achievement of certain criteria. The bonus is subject to a payout cap of \$150,000 for each fiscal year that the Consulting Agreement is in effect, and any bonus earned that exceeds the payout cap will be carried over into subsequent fiscal years. If the Consulting Agreement is terminated without cause, as defined therein, Mr. Hardy will be entitled to receive one year’s base consulting fee, together with all bonuses earned and unpaid up until the date of termination. Mr. Hardy is not entitled to participate in any employee-related benefits, including health, life and disability plans, of the Fund. In January 2011, the Fund disposed of certain investments and received \$10.0 million in cash. Mr. Hardy received a cash bonus of \$150,000 for fiscal 2011 as a result of the completion of this transaction and, pursuant to the Consulting Agreement, is not entitled to be paid any additional bonus for the remainder of fiscal 2011. As of March 31, 2011, the Fund incurred compensation expense of \$200,000 relating to Mr. Hardy’s Consulting Agreement which included the \$150,000 cash bonus for fiscal 2011 described above. Mr. Hardy has waived his right to \$561,662 of earned but unpaid bonus under the Consulting Agreement for fiscal 2010 and has further permanently waived his right to \$620,604 of earned but unpaid bonus in connection with activities of the Fund during the first quarter of 2011.

In June 2010, the Fund ratified and approved the use of A+ Filings, LLC (“A+ Filings”) to file its reports with the Securities and Exchange Commission. Mr. Kenneth I. Denos, Secretary of the Fund, holds a majority of the voting shares of A+ Filings. The Fund incurred \$7,000 in services rendered by A+ Filings for the quarter ended March 31, 2011.

(5) Dividends

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

(6) Portfolio Securities

During the three months ended March 31, 2011, we made a follow-on investment of \$0.03 million in Spectrum Management, LLC.

During the three months ended March 31, 2011, we realized net capital losses of \$0.9 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain (Loss)
London Bridge Entertainment Partners Ltd	Entertainment and leisure	Secured and subordinated debt	(992)
RP&C International Investments LLC	Healthcare	Membership Interest	138
Various others			(1)
			<u>\$ (855)</u>

During the three months ended March 31, 2011, we sold our promissory notes in 1848 Capital Partners, LLC (“1848”), Big Apple Entertainment Partners, LLC (“Big Apple”), and London Bridge Entertainment Partners, Ltd (“London Bridge”) and certain assets of Riptide Entertainment Partners, LLC (“Riptide”) in which we hold a 64.67% membership interest. All of these assets were sold to Capital Markets Acquisition Partners, LLC for a combined price of \$10 million, with \$9.8 million allocated to the promissory notes held by the Fund and \$0.2 million to Riptide. The Fund allocated the proceeds to the promissory notes resulting in a realized loss of approximately \$0.9 million at London Bridge. In addition, the monies provided to Riptide were sufficient to satisfy its outstanding liabilities, resulting in a value of \$0. We also received \$0.8 million in connection with the sale and redemption of our membership interest in RP&C International Investments LLC.

Net unrealized depreciation on investments increased by \$0.2 million, during the three months ended March 31, 2011, to a net unrealized depreciation of \$27.5 million. Such increase in depreciation resulted from the following changes:

- (i) Decline in fair market value of ConGlobal Industries Holding, Inc. (“ConGlobal”) of \$1.3 million due to lower storage revenues for containers.
- (ii) Transfer of unrealized depreciation to realized depreciation for London Bridge Entertainment Partners, Ltd. (London Bridge) of \$0.8 million due to the sale of the promissory note.
- (iii) Transfer of unrealized appreciation to realized appreciation for RP&C International Investments, LLC (RP&C) of \$0.1 million due to the maturity of the investment.
- (iv) Increase in fair market value of Spectrum Management, Inc. (“Spectrum”) of \$0.4 million due to the extension of maturity of outstanding debt and the increase in market comparables.

During the three months ended March 31, 2010, the Fund had investment activity of \$0.4 million in several follow-on investments, including \$0.2 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK).

The following table includes significant investment activity during the quarter ended March 31, 2010 (in thousands):

	New Investments		Existing Investments		Total
	Cash	PIK	Follow-On	PIK	
Trulite, Inc.	\$ —	\$ —	\$ 200	\$ —	\$ 200
1848 Capital Partners LLC	—	—	—	71	71
London Bridge Entertainment Partners Ltd.	—	—	—	54	54
Big Apple Entertainment Partners LLC	—	—	—	40	40
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 200</u>	<u>\$ 165</u>	<u>\$ 365</u>

During the three months ended March 31, 2010, we realized no significant gains or losses on sales of portfolio securities.

Net unrealized depreciation on investments increased by \$0.7 million during the three months ended March 31, 2010, to a net unrealized depreciation of \$15.9 million. Such increase in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation of (\$0.8) million, Riptide Entertainment LLC of (\$0.1) million and Spectrum Management, LLC of (\$0.2) million, resulting from declining sales and trailing operations for the period. These decreases in estimated fair market value were partially offset by the increase in fair market value of Sovereign Business Forms, Inc. of \$0.4 million, resulting from an increase in operations.

(9) Recent Accounting Pronouncements

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

(10) Subsequent Events

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

On April 1, 2011, the Fund sold U.S. Treasury bills for \$6.0 million and repaid the margin loan.

On April 25, 2011, the Fund received \$0.08 million from Sovereign Business Forms, Inc. in the form of a principal payment.

On April 27, 2011, the Fund announced that it had entered into two separate transactions involving the purchase of an aggregate of 11,408 bonds ("Bonds") issued by Orco Germany S.A., a commercial and multi-family residential real estate holding company and developer based in Berlin. The consideration provided to the selling bondholders consists of an aggregate of 1,700,000 newly issued shares of common stock of the Fund. The Fund received 8,890 of the Bonds on April 27, 2011. On May 9, 2011, one of these agreements was amended and restated to provide for an additional 45 days to deliver 2,518 of the Bonds in exchange for providing to the Fund approximately \$1.7 million in cash as security for such delivery.

On March 10, 2010, American General Life Insurance Company ("American General") filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees totaling approximately \$450,000. On May 11, 2011, we agreed to a settlement with American General in exchange for a one-time settlement fee of \$120,000.

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

Overview

Equus is a Business Development Corporation ("BDC") that provides financing solutions for privately held middle market and small capitalization companies. We began operations in 1983 and have been a publicly traded closed-end fund since 1991. Our investment objective is to seek the highest total return, consisting of capital appreciation and current income.

The valuation of the Fund's investments is the most significant area of judgment impacting the financial statements. The Fund's portfolio investments are valued at estimates of fair value, with the net change in unrealized appreciation or depreciation included in the determination of net assets. Almost all of the long-term investments are in privately-held or restricted securities, the valuation of which is necessarily subjective. Actual values may differ materially from the Fund's estimated fair value.

Most of the Fund's portfolio companies utilize leverage, and the leverage magnifies the return on its investments. For example, if a portfolio company has a total enterprise value of \$10.0 million and \$7.5 million in funded indebtedness, its equity is valued at \$2.5 million. If the enterprise value increases or decreases by 20%, to \$12.0 million or \$8.0 million, respectively, the value of the equity increases or decreases by 80%, to \$4.5 million or \$0.5 million, respectively. This disproportionate increase or decrease adds a level of volatility to the Fund's equity-oriented portfolio securities.

In June 2005, we retained Moore Clayton Capital Advisors, Inc. (“MCCA”) as our registered investment adviser to manage our portfolio and provide access to investment opportunities. Our investment advisory agreement with MCCA terminated on June 30, 2009 and we have since internalized the management of the Fund. We now directly employ our management team and incur the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to us under a fee-based advisory agreement, or an administrative organization charging us for services rendered. We expect that, because of management internalization, certain expenses of the Fund will not increase commensurate with an increase in the size of the Fund and, therefore, we can achieve efficiencies in our cost structure if we are able to grow the Fund.

Effective August 11, 2006, we began to employ a total return investment style. The total return style combines both growth and income investments and is intended to strike a balance between the potential for gain and the risk of loss. In the growth category, we are a “growth-at-reasonable-price” investor. We invest primarily in privately owned companies and are open to virtually any potential growth investment in the privately owned arena. However, our primary aim is to identify and acquire only those equity securities that meet our criteria for selling at reasonable prices. The income investments made consist principally of purchasing debt financing with the objective of generating regular interest income as well as long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

Since the Fund is a closed-end BDC, stockholders have no right to present their shares to the Fund for redemption. Because the shares continue to trade at a discount, the Board of Directors has determined that it would be in the best interest of the Fund’s stockholders for the Fund to be authorized to attempt to reduce or eliminate the market value discount from net asset value. Accordingly, from time to time the Fund may, but is not required to, repurchase its shares (including by means of tender offers) to attempt to reduce or eliminate the discount or to increase the net asset value of those shares.

Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires 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 Securities and Exchange Commission (“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.

During the first twelve months after an investment is made, the Fund utilizes the original investment amount 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, Fund 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 Fund 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. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable. The Fund may also use, when available, third-party transactions in a portfolio company’s securities as the basis of valuation (the “private market method”). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

Income approach – The income approach typically utilized by Fund 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. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable.

Asset approach – The Fund considers 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) Fund management believes the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions may result in the company’s inability to meet future obligations; or 4) the portfolio company’s reorganization or bankruptcy. Consideration is also given as to whether a liquidation event would be orderly or forced.

Fund management considers that the Fund’s general intent is to hold its loans to maturity when appraising its privately held debt investments. As such, Fund management believes 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, the Fund performs a yield analysis to determine if a debt security has been impaired.

Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

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 that the Fund (a) has held for more than one year and (b) holds on its books at a fair value of at least \$2.0 million 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 \$16.9 million and \$27.7 million as of March 31, 2011 and December 31, 2010, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. There were no publicly traded securities as of March 31, 2011 or December 31, 2010.

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*.

Deferred Offering Costs—Accumulation of costs related to the offering whereby we will sell additional shares or rights to acquire shares at a market price that may have been below net asset value. The main components of the costs are legal fees and consultant’s fees specifically related to the offering.

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 maintains greater than 50% of the board representation. Under the 1940 Act, “Affiliate Investments” are defined as those non-control investments in companies in which 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.

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

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. 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 recorded 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.

Current Market Conditions

Overall economic conditions have improved slightly through 2010 and continued in the first quarter of 2011 as the US economy has expanded at a modest rate. However, the economic recovery has been hampered by persistent high unemployment levels and lingering problems in the housing market. Further, the banking industry continues to experience additional bank failures as regulators continue to impose strict capital requirements. Additionally, future economic expansion 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 improved throughout 2010 and continuing in 2011 as low interest rates have reduced capital costs, some banks are lending more aggressively, valuations have increased and buyer and seller expectations have converged. These conditions were contributors to an upturn in transaction volume during 2010 and the first quarter 2011 since declining significantly in 2009. In addition, corporations have been deleveraging and are holding significant amounts of cash and many have begun to focus on acquisitions as part of future growth plans. Private equity firms have access to historically large amounts of committed capital as private equity activity has been lower than anticipated for nearly two years and fund raising was robust heading into the economic downturn.

Consistent with other companies in the financial services sector, our performance has been adversely affected. Between December 31, 2008 and March 31, 2011 our net asset value declined from \$9.16 per share to \$4.10 per share. This further impacted the closing price of our common stock, as it declined approximately 25.6% during 2009 and a further 21.9% during 2010 and, as of March 31, 2011, is trading at a 36.6% discount to our net asset value. We have continued to execute certain initiatives to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and enhance communication with shareholders. 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, sold certain of our portfolio investments for cash, and modified our investment strategy to pursue shorter term liquidation opportunities. 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. We also expect that, because of management internalization, certain expenses of the Fund

will not increase commensurate with an increase in the size of the Fund and, therefore, we can 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 its tax status as a RIC. During the three months ended March 31, 2011 and 2010, we borrowed such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on its net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends.

The Fund 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. Pursuant to the restrictions in the existing line of credit, the Fund is not allowed to incur additional indebtedness unless approved by the lender.

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.

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 after all expenses was \$0.7 million and \$0.05 million for the three months ended March 31, 2011 and March 31, 2010, respectively. The increase in net investment loss generated at March 31, 2011 compared to March 31, 2010 is due primarily to the decrease in total investment income along with the increase in total expenses for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010.

Total income from portfolio securities was \$0.4 million and \$0.8 million for the three months ended March 31, 2011 and 2010, respectively. The \$0.4 decrease was primarily due to the decline in income producing investments for the three months ended March 31, 2011, resulting from the monetizations of 1848 Capital Partners LLC, Big Apple Entertainment Partners LLC and London Bridge Entertainment Partners Ltd.

Total expenses increased from \$0.9 million for the three months ended March 31, 2010 to \$1.1 million for the three months ended March 31, 2011. This \$0.2 million increase was largely due to the increase in compensation expense as a result of accrued bonuses and the litigation settlement in the amount of \$0.1 million for the quarter ending March 31, 2011.

Realized Gains and Losses on Sales of Portfolio Securities

During the three months ended March 31, 2011, we realized net capital losses of \$0.9 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain (Loss)
London Bridge Entertainment Partners Ltd	Entertainment and leisure	Secured and subordinated debt	(992)
RP&C International Investments LLC	Healthcare	Membership Interest	138
Various others			(1)
			<u>\$ (855)</u>

During the three months ended March 31, 2010, the Fund realized net capital loss of \$0.004 million from the sale of U.S. Treasury Bills.

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Net unrealized depreciation on investments increased by \$0.2 million, during the three months ended March 31, 2011, to a net unrealized depreciation of \$27.5 million. Such increase in depreciation resulted from the following changes:

- (i) Decline in fair market value of ConGlobal Industries Holding, Inc. (“ConGlobal”) of \$1.3 million due to lower storage revenues for containers.
- (ii) Transfer of unrealized depreciation to realized depreciation for London Bridge Entertainment Partners, Ltd. (London Bridge) of \$0.8 million due to the sale of the promissory note.
- (iii) Transfer of unrealized appreciation to realized appreciation for RP&C International Investments, LLC (RP&C) of \$0.1 million due to the maturity of the investment.
- (iv) Increase in fair market value of Spectrum Management, Inc. (“Spectrum”) of \$0.4 million due to the extension of maturity of outstanding debt and the increase in market comparables.

Net unrealized depreciation on investments increased by \$0.7 million during the three months ended March 31, 2010, to a net unrealized depreciation of \$15.9 million. Such increase in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation, Riptide Entertainment LLC and Spectrum Management, LLC, resulting from declining sales and trailing operations for the period. These decreases in estimated fair market value were partially offset by the increase in fair market value of Sovereign Business Forms, Inc., resulting from an increase in operations.

Dividends

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

Portfolio Investments

During the three months ended March 31, 2011, we made a follow-on investment of \$0.03 million in Spectrum Management, LLC.

The following table includes significant investment activity during the quarter ended March 31, 2010 (in thousands):

	New Investments		Existing Investments		
	Cash	PIK	Follow-on	PIK	Total
TruLite, Inc.	\$ —	\$ —	\$ 200	\$ —	\$ 200
1848 Capital Partners LLC	—	—	—	71	71
London Bridge Entertainment Partners Ltd.	—	—	—	54	54
Big Apple Entertainment Partners LLC	—	—	—	40	40
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 200</u>	<u>\$ 165</u>	<u>\$ 365</u>

Subsequent Events

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

On April 1, 2011, the Fund sold U.S. Treasury bills for \$6.0 million and repaid the margin loan.

On April 25, 2011, the Fund received \$0.08 million from Sovereign Business Forms, Inc. in the form of a principal payment.

On April 27, 2011, the Fund announced that it had entered into two separate transactions involving the purchase of an aggregate of 11,408 bonds ("Bonds") issued by Orco Germany S.A., a commercial and multi-family residential real estate holding company and developer based in Berlin. The consideration provided to the selling bondholders consists of an aggregate of 1,700,000 newly issued shares of common stock of the Fund. The Fund received 8,890 of the Bonds on April 27, 2011. On May 9, 2011, one of these agreements was amended and restated to provide for an additional 45 days to deliver 2,518 of the Bonds in exchange for providing to the Fund approximately \$1.7 million in cash as security for such delivery.

On May 2, 2011, the Fund announced that it will hold its annual meeting of shareholders on June 10, 2011. The purpose of the meeting is to elect 9 directors, each for a term of one year; ratify the appointment of UHY LLP as the Fund's independent auditor for fiscal year ending December 31, 2011; approve, on a non-binding advisory basis, the compensation paid to the Fund's named executive officers in 2010; approve, on a non-binding advisory basis, the frequency of shareholder advisory votes concerning the Fund's executive compensation; and transact such other business as may properly come before the annual meeting.

On March 10, 2010, American General Life Insurance Company ("American General") filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees totaling approximately \$450,000. On May 11, 2011, we agreed to a settlement with American General in exchange for a one-time settlement fee of \$120,000.

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, the Fund 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 stocks in publicly traded companies. These investments are directly exposed to equity price risk, in that a hypothetical ten percent change in these equity prices would result in a similar percentage change in the fair value of these securities.

We are classified as a "non-diversified" investment company under the Investment Company 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 segment called Business Products and Services include three portfolio companies and was 23.3% of the net asset value and 50.2% of our investments in portfolio company securities (at fair value) as of March 31, 2011. Changes in business or industry trends or in the financial condition, results of operations, or the market's assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a "diversified" company holding numerous investments.

Item 4. Controls and Procedures

The Fund maintains disclosure controls and other procedures that are designed to ensure that information required to be disclosed by the Fund in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Fund's management, including its Executive Chairman and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Fund's management, with the participation of the Fund's Executive Chairman and Chief Financial Officer, have evaluated the effectiveness of the design and operations of the Fund's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2011. Based on their evaluation, the Fund's Executive Chairman (Principal Executive Officer) and Chief Financial Officer concluded that the Fund's disclosure controls and procedures were effective at a reasonable assurance level. There has been no change in the Fund's internal control over financial reporting during the quarter ended March 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On June 30, 2009, the Fund received a "Wells" notice from the staff of the Securities and Exchange Commission ("SEC"). Based on discussions with the SEC staff, the Fund believes that the issues the staff intends to pursue relate to a one-time administrative fee that the Fund paid in 2005 and the compensation of a certain Fund officer during approximately the same time period. The Wells notice notified the Fund that the staff intends to recommend that the SEC bring a civil action against the Fund for possible violations of the securities laws. The Fund has been cooperating with the SEC in this inquiry. In accordance with SEC procedures, the Fund has presented its perspective on these issues to the staff. The SEC has not made a formal decision regarding an enforcement proceeding in respect of the Fund.

On March 10, 2010, American General Life Insurance Company ("American General") filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees totaling approximately \$450,000. We agreed to a settlement with American General in exchange for a one-time payment of \$120,000.

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

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, 2010.

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

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

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.

- (a) 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.]
- (b) Form of Indemnification Agreement between the Fund and its directors and certain officers. [Incorporated by reference to Exhibit 10(g) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.]
- (c) 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.]
- (d) 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.]
- (e) Purchase and Sale Agreement between the Fund and Kekovia Enterprises Company Limited, dated April 21, 2011. [Filed herewith.]
- (f) Purchase and Sale Agreement between the Fund and Khan Investments Ltd., dated April 20, 2011. [Filed herewith]
- (g) Amended and Restated Purchase and Sale Agreement between the Fund and Khan Investments Ltd., dated May 9, 2011.* [Filed herewith.]

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

- 1. Certification by Principal Executive Officer
- 2. Certification by Chief Financial Officer

32. Section 1350 Certifications

- 1. Certification by Principal Executive Officer
- 2. Certification by Chief Financial Officer

SIGNATURE

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

EQUUS TOTAL RETURN, INC.

Date: May 16, 2011

/s/ John A. Hardy

John A. Hardy
Executive Chairman