

EQUUS TOTAL RETURN, INC.
Form 10-Q
November 14, 2011

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 September 30, 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.)
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Eight Greenway Plaza, Suite 930 Houston, Texas (Address of principal executive offices)	77046 (Zip Code)
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Registrant's telephone number, including area code: (713) 529-0900

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 November 14, 2011.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements**

EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

	September 30, 2011	December 31, 2010
	(Unaudited)	
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$24,202 and \$34,231 respectively)	\$ 14,725	\$17,576
Affiliate investments (cost at \$350 and \$923 respectively)	50	762
Non-affiliate investments (cost at \$12,878 and \$19,808 respectively)	5,357	9,324
Total investments in portfolio securities at fair value	20,132	27,662
Cash and cash equivalents	16,648	7,382
Restricted cash and temporary cash investments	7,070	15,150
Accounts receivable and other	79	273
Accrued interest receivable	2,433	2,724
Deferred offering costs	—	263
Total assets	46,362	53,454
Liabilities and net assets		
Accounts payable and accrued liabilities	366	345
Accounts payable to related parties	26	58
Borrowing under margin account	7,000	15,000
Total liabilities	7,392	15,403
Commitments and contingencies		
Net assets	\$ 38,970	\$38,051
Net assets consist of:		
Common stock, par value	\$ 10	\$9
Capital in excess of par value	64,292	70,597
Undistributed net investment losses	(8,034)	(5,255)
Unrealized depreciation of portfolio securities, net	(17,298)	(27,300)
Total net assets	\$ 38,970	\$38,051
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	10,562	8,862
Shares of preferred stock issued and outstanding, \$.001 par value, 5,000 shares authorized	—	—
Net asset value per share	\$ 3.69	\$4.29

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Investment income:				
Interest income (loss), net:				
Control investments	\$(257)	\$274	\$413	\$851
Affiliate investments	—	13	4	39
Non-affiliate investments	79	319	220	1,387
Net interest income (loss)	(178)	606	637	2,277
Interest from temporary cash investments	9	2	25	9
Total investment income (loss)	(169)	608	662	2,286
Expenses:				
Compensation expense	250	244	1,077	793
Professional fees	263	123	1,026	1,300
Offerring costs	128	—	428	—
Settlement expense	—	—	320	—
Director fees and expenses	102	62	310	275
Mailing, printing and other expenses	55	37	141	317
General and administrative expense	29	42	122	132
Interest expense	2	7	3	31
Taxes	(107)	14	14	38
Total expenses	722	529	3,441	2,886
Net investment income (loss)	(891)	79	(2,779)	(600)
Net realized gain (loss):				
Control investments	—	—	(10,074)	—
Affiliate investments	—	—	138	—
Non-affiliate investments	—	—	(992)	—
Temporary cash investments	(1)	(1)	(2)	(6)
Net realized loss	(1)	(1)	(10,930)	(6)
Net unrealized appreciation (depreciation) of portfolio securities:				
End of period	(17,298)	(34,048)	(17,298)	(34,048)
Beginning of period	(15,727)	(27,556)	(27,300)	(15,227)
Net change in unrealized appreciation (depreciation) of portfolio securities	(1,571)	(6,492)	10,002	(18,821)
Net decrease in net assets resulting from operations	\$(2,463)	\$(6,414)	\$(3,707)	\$(19,427)
Net decrease in net assets resulting from operations per share:				
Basic and diluted	\$(0.23)	\$(0.72)	\$(0.38)	\$(2.19)
Weighted average shares outstanding				
Basic and diluted	10,562	8,862	9,877	8,862

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(in thousands)	Nine months ended	
	2011	2010
Net decrease in net assets resulting from operations	\$(3,707)	\$(19,427)
Capital share transactions:		
Shares issued for portfolio securities	4,626	—
Net increase in net assets resulting from capital share transactions	4,626	—
Increase (decrease) in net assets	919	(19,427)
Net assets at beginning of period	38,051	50,901
Net assets at end of period	\$38,970	\$31,474

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

Table of ContentsEQUUS TOTAL RETURN, INC.STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine months ended September 30,	
	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	\$(3,707)	\$(19,427)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Net realized loss	10,930	6
Net change in unrealized depreciation of portfolio securities	(10,002)	18,821
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(392)	(775)
Net proceeds from dispositions of portfolio securities	9,730	—
Principal payments received from portfolio securities	280	3,501
Decrease in deferred offering costs	428	—
Cash settlement of collateral	1,610	—
Sales of temporary cash investments	8,080	14,133
(Increase) decrease in accounts receivable and other	194	(127)
(Increase) decrease in accrued interest receivable	291	(880)
Increase in accounts payable and accrued liabilities	21	71
Increase (decrease) in accounts payable-related parties	(32)	101
Net cash provided by operating activities	17,431	15,424
Cash flows from financing activities:		
Deferred offering costs	(165)	(65)
Borrowings under margin account	28,000	55,999
Repayments under margin account	(36,000)	(69,998)
Net cash used in financing activities	(8,165)	(14,064)
Net increase in cash and cash equivalents	9,266	1,360
Cash and cash equivalents at beginning of period	7,382	6,045
Cash and cash equivalents at end of period	\$16,648	\$7,405
Non-cash operating and financing activities:		
Shares issued in lieu of cash for portfolio securities	\$4,626	\$—
Accrued interest exchanged for portfolio securities	\$—	\$487
Supplemental disclosure of cash flow information:		
Interest paid	\$2	\$7
Income taxes paid	\$—	\$38

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

Table of ContentsEQUUS TOTAL RETURN, INC.SUPPLEMENTAL INFORMATION-SELECTED PER SHARE DATA AND RATIOS

(Unaudited)

	Nine months ended September 30,	
	2011	2010
Investment income	\$0.07	\$0.26
Expenses	0.35	0.33
Net investment loss	(0.28)	(0.07)
Net realized loss	(1.11)	—
Net change in unrealized depreciation	1.01	(2.12)
Net decrease in net assets	(0.38)	(2.19)
Capital transactions:		
Shares issued for portfolio securities	(0.16)	—
Dilutive effect of shares issued	(0.06)	—
Decrease in net assets resulting from capital transactions	(0.22)	—
Net decrease in net assets	(0.60)	(2.19)
Net assets at beginning of period	4.29	5.74
Net assets at end of period, basic and diluted	\$3.69	\$3.55
Weighted average number of shares outstanding during period in thousands	9,877	8,862
Market price per share		
Beginning of period	\$2.50	\$3.20
End of period	\$1.88	\$2.38
Selected ratios:		
Ratio of expenses to average net assets	8.93 %	7.01 %
Ratio of net investment loss to average net assets	(7.22 %)	(1.46)%
Ratio of net decrease in net assets resulting from operations to average net assets	(9.63 %)	(47.17)%
Total return on market price ⁽¹⁾	(24.80%)	(25.63)%

(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.

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS****September 30, 2011****(Unaudited)***(in thousands, except share data)*

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
Control Investments:						
Majority-owned ⁽⁵⁾ :						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		\$4,000	\$1,160
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock (64.67% / 55.00% Fully Diluted)		5,080	4,185
			12% subordinated promissory notes due 5/13 ⁽²⁾	\$2,462	2,462	2,462
					7,542	6,647
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (92.1%/82.5% Fully Diluted)		2,850	-
			16% subordinated promissory notes due 11/11 ⁽³⁾⁽⁴⁾	2,440	2,440	985
					5,290	985
Total Control Investments: Majority-owned (represents 32.4% of total investments at fair value)					\$16,832	\$8,792
Control Investments: Non-majority owned ⁽⁶⁾ :						
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock (34.2%)		\$1,370	\$ -
				\$6,000	6,000	5,933

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7% subordinated
promissory note due
12/12⁽³⁾

			7,370	5,933
Total Control Investments: Non-majority owned (represents 21.8% of total investments at fair value)			\$7,370	\$5,933
Total Control Investments: (represents 54.3% of total investments at fair value)			\$24,202	\$14,725
Affiliate Investments ⁽⁷⁾ :				
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (20% / 18.70% Fully Diluted)	\$350
				\$50
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.

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS - (Continued)****September 30, 2011****(Unaudited)***(in thousands, except share data)*

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Cost of Principal Investment	Fair Value(1)
Non-Affiliate Investments (less than 5% owned):					
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares (12.25%) preferred stock	\$1,795	\$ -
			38,750 Class C shares preferred stock	-	-
			788,649 Class D shares 15% preferred stock	-	-
			2,218,109 Class E shares 8% preferred stock	-	-
			Warrant to buy 2,229,450 shares of common stock through 5/16	-	-
				1,795	-
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	115,180 shares common stock (0.11%)	8,000	-
			Option to purchase 16,000 shares of common stock at \$6.50 per share through 12/12	-	-
				8,000	-
Orco Germany S.A Berlin, Germany	Real estate	April 2011	8,890 4% Corporate Bonds due 5/12	\$8,113	3,083
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	-	-
Total Non-Affiliate Investments (represents 19.7% of total investments at fair value)				\$12,878	\$5,357
Total Investment in Portfolio Securities				\$37,430	\$20,132
Temporary Cash Investments					
U.S. Treasury Bill ⁽⁸⁾	Government	August 2011	UST 0% due 12/11	\$7,000	\$7,000
Total Temporary Cash Investments (represents 25.8% of total investments at fair value)				\$7,000	\$7,000

Total Investments	\$44,430	\$27,132
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- (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 and accrued interest receivable are impaired.
- (5) 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.
- (6) 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.
- (7) 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.

The Fund has included U.S. Treasury Bills in “Restricted Cash and Temporary Cash Investments” on the balance sheet.

(8)

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

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Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS - (Continued)****September 30, 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 September 30, 2011 all of our investments, with the exception of the Fund's holdings of the Orco Germany S.A. 4% bonds due May 2012, were in eligible portfolio companies. We provide significant managerial assistance to portfolio companies that comprise 73.4% of the total value of the investments in portfolio securities as of September 30, 2011.

Our investments in portfolio securities consist of the following types of securities as of September 30, 2011 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets	
Secured and subordinated debt	\$13,985	\$14,737	37.9	%
Common stock	14,800	4,235	10.8	%
Limited liability company investments	6,850	1,160	3.0	%
Preferred stock	1,795	—	0.0	%
Options and warrants	—	—	0.0	%
Total	\$37,430	\$20,132	51.7	%

Cash payments of interest are currently being received and/or accrued on secured and subordinated debt, aggregating \$13.8 million in fair value, while accrued interest has been impaired on notes receivable included in secured and subordinated debt with a fair value of \$1 million.

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The following is a summary by industry of the Fund's investments in portfolio securities as of September 30, 2011 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Business products and services	\$7,632	19.6 %
Shipping products and services	5,983	15.4 %
Real estate	5,357	13.7 %
Media	1,160	3.0 %
Total	\$20,132	51.7 %

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

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

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Cost of Principal Investment	Fair Value(1)
Control investments: Majority-owned (6):					
Equus Media Development Company, LLC	Media	January 2007	Member interest (100%)	\$4,000	\$1,163
Riptide Entertainment, LLC	Entertainment and leisure	December 2005	Member interest (64.67%)	65	-
			8% promissory notes due 9/14 ⁽⁵⁾	\$10,009	10,009
Sovereign Business Forms, Inc.	Business products and services	August 1996	1,214,630 shares of common stock (64.66% / 55.00% Fully Diluted)	5,080	3,894
			12% subordinated promissory notes due 5/13 ⁽²⁾	2,742	2,742
				7,822	6,636
Spectrum Management, LLC	Business products and services	December 1999	285,000 units of Class A member interest (81% Fully Diluted)	2,850	-
			16% subordinated promissory notes due 5/11 ⁽²⁾⁽³⁾	2,115	1,422
				4,965	1,422
Total Control investments: Majority-owned (represents 21.6% of total investments at fair value)					