

EQUUS TOTAL RETURN, INC.  
Form 10-K  
March 29, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the year ended December 31, 2018**

**Or**

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

**For the transition period from to**

**Commission File Number 814-00098**

**EQUUS TOTAL RETURN, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware** **76-0345915**  
**(State or other jurisdiction of** **(I.R.S. Employer Identification No.)**  
**incorporation or organization)**

**700 Louisiana St. 48<sup>th</sup> Floor, Houston, Texas 77002**  
**(Address of principal executive offices) (Zip Code)**  
**(713) 529-0900**

**Registrant's telephone number, including area code:**

**Securities registered pursuant to Section 12(b) of the Act:**

**Name of each exchange**  
**Title of each class** **on which registered**  
**Common Stock** **New York Stock Exchange**  
**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Edgar Filing: EQUUS TOTAL RETURN, INC. - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Approximate aggregate market value of common stock held by non-affiliates of the registrant: \$14,099,813 computed on the basis of \$2.36 per share, the closing price of the registrant's common stock on the New York Stock Exchange on June 30, 2018. For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates. There were 13,518,146 shares of the registrant's common stock, \$.001 par value, outstanding as of March 29, 2019. The net asset value of a share of the Registrant as of December 31, 2018 was \$3.22.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Portions of the Proxy Statement (to be filed) for the 2019 Annual Shareholder's meeting are incorporated by reference in Parts II and III.

Table of Contents**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
<b><u>Item 1</u></b> Business	3
<b><u>Item 1A</u></b> Risk Factors	10
<b><u>Item 1B</u></b> Unresolved Staff Comments	20
<b><u>Item 2</u></b> Properties	20
<b><u>Item 3</u></b> Legal Proceedings	21
<b><u>Item 4</u></b> Mine Safety Disclosures	21
<b><u>PART II</u></b>	
<b><u>Item 5</u></b> Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
<b><u>Item 6</u></b> Selected Financial Data	22
<b><u>Item 7</u></b> Management’s Discussion and Analysis of Financial Condition and Results of Operations	22
<b><u>Item 7A</u></b> Quantitative and Qualitative Information About Market Risk	32
<b><u>Item 8</u></b> Financial Statements and Supplementary Data	34
<b><u>Item 9</u></b> Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	60
<b><u>Item 9A</u></b> Controls and Procedures	60
<b><u>Item 9B</u></b> Other Information	60
<b><u>PART III</u></b>	
<b><u>Item 10</u></b> Directors, Executive Officers and Corporate Governance	61
<b><u>Item 11</u></b> Executive Compensation	61
<b><u>Item 12</u></b> Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	61
<b><u>Item 13</u></b> Certain Relationships and Related Transactions, and Director Independence	61
<b><u>Item 14</u></b> Principal Accountant Fees and Services	61
<b><u>PART IV</u></b>	
<b><u>Item 15</u></b> Exhibits and Financial Statement Schedules	61
<b><u>Item 16</u></b> Form 10-K Summary	61

Table of Contents

**PART I**

**Item 1. *Business***

Equus Total Return, Inc. (“we,” “us,” “our,” “Equus” the “Company” or 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. On August 11, 2006, our shareholders approved the change of the Fund’s investment strategy to a total return investment objective. This strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

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

Equus is a closed-end management investment company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). In order to remain a BDC, we must meet certain specified requirements under the 1940 Act, including investing at least 70% of our assets in eligible portfolio companies and limiting the amount of leverage we incur. Equus is also a regulated investment company (“RIC”) under Subchapter M of the U.S. Internal Revenue Code of 1986. As such, we are not required to pay corporate-level income tax on the Fund’s investment income. So long as we remain a BDC, we intend to maintain our RIC status, which requires that we qualify annually as a RIC by meeting certain specified requirements. For a discussion of these requirements necessary to maintain our status as a BDC and as a RIC, please see “*Business Development Company Requirements*” and “*Regulated Investment Company Tax Status*,” respectively.

Our principal office is located at 700 Louisiana St., 48<sup>th</sup> Floor, Houston, Texas, 77002, and the telephone number is 1-888-323-4533. Our corporate website is located at [www.equuscap.com](http://www.equuscap.com). We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished to

the Securities and Exchange Commission (“SEC”). Our shares are traded on The New York Stock Exchange (“NYSE”) under the ticker symbol “EQS”.

## Significant Developments

*Plan of Reorganization and Share Exchange with MVC Capital.* On May 14, 2014, we announced that the Fund intended to effect a reorganization pursuant to Section 2(a)(33) of the 1940 Act (hereinafter, the “Plan of Reorganization”). As a first step to consummating the Plan of Reorganization, we sold to MVC Capital, Inc. (“MVC”) 2,112,000 newly-issued shares of the Fund’s common stock in exchange for 395,839 shares of MVC (such transaction is hereinafter referred to as the “Share Exchange”). MVC is a business development company traded on the NYSE that provides long-term debt and equity investment capital to fund growth, acquisitions and recapitalizations of companies in a variety of industries. The Share Exchange was calculated based on the Fund’s and MVC’s respective net asset value per share. At the time of the Share Exchange, the number of MVC shares received by Equus represented approximately 1.73% of MVC’s total outstanding shares of common stock.

Pursuant to the terms of a Share Exchange Agreement, dated May 12, 2014, entered into by Equus and MVC which memorialized the Share Exchange, we intend to finalize the Plan of Reorganization by pursuing a merger or consolidation (“Consolidation”) with an operating company focused on the energy, natural resources, technology, or financial services sector and terminating the Fund’s election to be classified as a BDC under the 1940 Act. Our management is currently evaluating these alternatives and expects to commence and/or consummate a Consolidation during 2019.

## Table of Contents

*Agreement to Acquire Portfolio Company of MVC*—On April 24, 2017, we entered into a Stock Purchase Agreement and Plan of Merger (“Merger Agreement”) with ETR Merger Sub, Inc., a newly-formed wholly-owned subsidiary of Equus, certain shareholders of USG&E, and MVC as a selling shareholder of U.S. Gas & Electric, Inc. (“USG&E”) and as representative of the selling USG&E shareholders. On May 30, 2017, USG&E and MVC notified us that they had accepted a proposal from Crius Energy Trust, that was considered by the respective boards of directors of USG&E and MVC to constitute a “Superior Proposal” (as such term is defined in the Merger Agreement) to the terms and conditions of the Merger Agreement, and, accordingly, provided us with a notice of termination pursuant to the Merger Agreement. Further, pursuant to the Merger Agreement, USG&E paid us a termination fee of \$2.5 million (see Note 4 – *Related Party Transactions and Agreements* below).

*Intention to Continue to Pursue Consolidation.* Notwithstanding the termination of the Merger Agreement with USG&E described above, we intend to pursue a Consolidation and the completion of our Plan of Reorganization with another operating company and withdraw our BDC election as authorized by our stockholders. While we are presently evaluating various opportunities that could enable us to accomplish a Consolidation, we cannot assure you that we will be able to do so within any particular time period or at all. Moreover, we cannot assure you that the terms of any such transaction that would embody a Consolidation would be acceptable to us.

*Authorization to Withdraw BDC Election.* On January 21, 2019, holders of a majority of the outstanding common stock of the Fund approved our cessation as a BDC under the 1940 Act and authorized our Board to cause the Fund’s withdrawal of its election to be classified as a BDC, effective as of a date designated by the Board and our Chief Executive Officer, but no later than July 31, 2019. This authorization and others which preceded it that have since expired were given as a consequence of the Plan of Reorganization described above. Notwithstanding any such authorization to withdraw our BDC election, we will not submit any such withdrawal unless and until Equus has entered into a definitive agreement to effect a Consolidation. Further, even if we are again authorized to withdraw our election as a BDC, we will require a subsequent affirmative vote from holders of a majority of our outstanding voting shares to enter into any such definitive agreement or change the nature of our business.

*Outlook.* Our Board and management of the Fund (“Management”) continue to believe that current market conditions and recent portfolio performance dictate the need to pursue a more active role in the management of our remaining investments and to seek liquidity events at the appropriate time to protect and enhance shareholder value. These activities include continuous monitoring and intensive reviews of portfolio company performance and expectations, providing follow-on capital when necessary, and the exploration of liquidity events for certain portfolio companies to position the Fund to maximize investment returns and, to the extent we intend to remain a BDC, actively pursuing suitable new investments for the Fund.

## **Investment Objective**

To the extent we remain a BDC and do not complete the Consolidation as described above, our investment objective is to maximize the total return to our stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of small and middle market capitalization companies that are

generally not publicly traded at the time of our investment. As a result of our endeavors in the energy sector, we also seek to purchase or develop working interests and revenue leasehold interests in oil and gas properties, although we remain open to exploring investment opportunities in a variety of other sectors. Should we continue to grow and develop Equus as a closed-end fund instead of an operating company, we intend to include investments in progressively larger enterprises.

### **Investment Strategy**

Our investment strategy attempts to strike a balance between the potential for gain and the risk of loss. With respect to capital appreciation, Equus is a “growth-at-reasonable-price” investor that seeks to identify and acquire securities that meet our criteria for selling at reasonable prices. We give priority to cash producing investments wherein we invest principally in debt or preferred equity financing with the objective of generating regular interest and dividend income back to the Fund. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. Given market conditions over the past several years and the performance of our portfolio, our Management and Board believe it prudent to continue to review alternatives to refine and further clarify the current strategies.

### **Investment Criteria**

Consistent with our investment objective and strategy, our Management evaluates prospective investments based upon the criteria set forth below. We may modify some or all of these criteria from time to time.

Table of Contents

*Management Competency and Ownership.* We seek to invest in companies with experienced management teams who have demonstrated a track record of successful performance. Further, we desire to invest in companies with significant management ownership. We believe that significant management ownership in small capitalization and middle market companies provides appropriate incentives and an alignment of interests for management to maximize shareholder value. In addition, we will seek to design compensation and incentive arrangements that align the interests of the portfolio company's management with those of the Fund to enhance potential returns.

*Substantial Target Market.* We desire to focus on companies whose products or services have favorable growth potential and strong competitive positions in their respective markets. These positions may be as leadership positions within a given industry or market niche positions in which the product or service has a demonstrated competitive advantage. The market in which a potential portfolio company operates should either be sizeable or have significant growth potential.

*History of Profitability and Favorable Growth Potential.* We target companies that have demonstrated a history of profitability or a reasonable expectation of a return to profitability in the near future.

*Ability to Provide Regular Cash Interest and Distributions.* We look for companies with strong cash flow models sufficient to provide regular and consistent interest and/or preferred dividend payments.

*Management Assistance and Substantial Equity.* Given the requirements of a BDC under the 1940 Act, we seek to invest in companies that will permit substantial managerial assistance including representation on the board of directors of the company or its equivalent. With regard to equity investments, we desire to obtain a substantial investment position in portfolio companies. This position may be as a minority shareholder with certain contractual rights and powers, or as a majority shareholder, and should otherwise allow us to have substantive input on the direction and strategies of the portfolio company.

*Plausible Exit and Potential for Appreciation.* Prior to investing in a portfolio company, we will seek to analyze potential exit strategies and pursue those investments with such strategies as may be achievable.

**Investment Operations**

Our investment operations consist principally of the following basic activities:



*Investment Selection.* Historically, many of our investment opportunities have come from Management, members of our Board, other private equity investors, direct approaches from prospective portfolio companies and referrals from investment banks, business brokers, commercial, regional and local banks, attorneys, accountants and other members of the financial community. Subject to the approval of our Board, we may compensate certain referrals with finder's fees to the extent permissible under applicable law and consistent with industry practice.

*Due Diligence.* Once a potential investment is identified, we undertake a due diligence review using information provided by the prospective portfolio company and publicly available information. Management may also seek input from consultants, investment bankers and other knowledgeable sources. The due diligence review will typically include, but is not limited to:

- Review of historical and prospective financial information including audits and budgets;
- On-site visits;
- Interviews with management, employees, customers and vendors of the potential portfolio company;
- Review of existing loan documents and credit arrangements, if any;
- Background checks on members of management; and
- Research relating to the company, its management, industry, markets, products and services and competitors.

*Structuring Investments.* We typically negotiate investments in private transactions directly with the owner or issuer of the securities acquired. Management structures the terms of a proposed investment, including the purchase price, the type of security to be purchased and our future involvement in the portfolio company's business. We seek to structure the terms of the investment to provide for the capital needs of the portfolio company while maximizing our opportunities for current income and capital appreciation. In addition, we may invest with other co-investors including private equity firms, business development companies, small business investment companies, venture capital groups, institutional investors and individual investors.

## Table of Contents

*Providing Management Assistance and Monitoring of Investments.* Successful private equity investments typically require active monitoring of, and significant participation in, major business decisions of portfolio companies. In several cases, officers and directors of the Fund serve as members of the governing boards of portfolio companies. Such management assistance is required of a BDC under the 1940 Act. We seek to provide guidance and management assistance with respect to such matters as capital structure, acquisitions, budgets, profit goals, corporate strategy, portfolio management and potential sale of the company or other exit strategies. In connection with their service as directors of portfolio companies, officers and directors of the Fund may receive and retain directors' fees or reimbursement for expenses incurred, and may participate in incentive stock option plans for non-employee directors, if any. When necessary and as requested by any portfolio company, Management, on behalf of the Fund, may also assign staff professionals with financial or management expertise to assist portfolio company management.

## **Follow-On Investments**

Following our initial investment, a portfolio company may request that we make follow-on investments by providing additional equity or loans needed to fully implement its business plans to develop a new line of business or to recover from unexpected business problems or other purposes. In addition, follow-on investments may be made to exercise warrants or other preferential rights granted to the Fund or otherwise to increase our position in a portfolio company. We may make follow-on investments in portfolio companies from cash on hand or borrow all or a portion of the funds required. If we are unable to make follow-on investments due to lack of available capital, the portfolio company in need of the investment may be negatively impacted, we may be required to subordinate our debt interest in the portfolio company to a new lender, and our equity interest in the portfolio company may be diluted if outside equity capital is required.

## **Disposition of Investments**

The method and timing of the disposition of our investments in portfolio companies are critical to our ability to realize capital gains and minimize capital losses. We may dispose of our portfolio securities through a variety of transactions, including recapitalizations, refinancings, management buy-outs, repayments from cash flow, acquisitions of portfolio companies by a third party and outright sales of the Fund's securities in a portfolio company. In addition, under certain circumstances we may distribute our portfolio securities in-kind to our stockholders. In structuring our investments, we endeavor to reach an understanding with the management of the prospective portfolio company as to the appropriate method and timing of the disposition of the investment. In some cases, we seek registration rights for our portfolio securities at the time of investment which typically provide that the portfolio company will bear the cost of registration. To the extent not paid by the portfolio company, the Fund typically bears the costs of disposing of our portfolio investments.

## **Current Portfolio Companies**

For a description of our current portfolio company investments, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations–Portfolio Securities.*”

## **Valuation**

On a quarterly basis, Management values its portfolio investments. These valuations are subject to the approval and adoption of the Board. Valuations of our portfolio securities at “fair value” are performed in accordance with accounting principles generally accepted in the United States (“GAAP”).

The fair value of investments for which no market exists (which includes most of our investments) is determined through procedures established in good faith by the Board. As a general principle, the current “fair value” of an investment is the amount the Fund might reasonably expect to receive upon its sale in an orderly manner. There are a range of values that are reasonable for such investments at any particular time.

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

## Table of Contents

Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment; however, we may perform a yield analysis to determine if a debt security has been impaired.

Our Management 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. Management would then present its fair value recommendations to the Audit Committee of the Board of Directors for review. Following review and any adjustments required thereby, the Audit Committee would, in turn, recommend the fair values for all of the Fund's portfolio investments to the Board of Directors for final approval.

To the extent that market quotations are readily available for our investments and such investments are freely transferable, we value them at the closing market price on the date of valuation. For securities which are of the same class as a class of public securities but are restricted from free trading (such as Rule 144 stock), we establish our valuation by discounting the closing market price to reflect the estimated impact of illiquidity caused by such restrictions. We generally hold investments in debt securities to maturity. Accordingly, we determine the fair value of debt securities on the basis of the terms of the debt securities and the financial condition of the issuer. We value certificates of deposit at their face value, plus interest accrued to the date of valuation.

Our Board reviews the valuation policies on a quarterly basis to determine their appropriateness and reserves the right to hire and, from time to time, utilizes independent valuation firms to review Management's valuation methodology or to conduct an independent valuation.

On a daily basis, we adjust net asset value for changes in the value of publicly held securities, if any, and for material changes in the value of investments in securities issued by private companies. We report these amounts to Lipper Analytical Services, Inc. Our weekly and daily net asset values appear in various publications, including *Barron's* and *The Wall Street Journal*.

## **Competition**

We compete with a large number of public and private equity and mezzanine funds and other financing sources, including traditional financial services companies such as finance companies and commercial banks. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Our competitors may have a lower cost of funds and many have access to funding sources that are not available to us. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market

shares. In addition, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC.

We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. In addition, because of this competition, we may not be able to take advantage of attractive investment opportunities and may not be able to identify and make investments that satisfy our investment objectives or meet our investment goals.

## **Properties**

Our principal executive offices are located at 700 Louisiana St., 48<sup>th</sup> Floor, Houston, Texas 77002. We believe that our office facilities are suitable and adequate for our operations as currently conducted and contemplated.

Table of Contents

**Business Development Company Requirements**

*Qualifying Assets.* As a BDC, we may not acquire any asset other than qualifying assets, as defined by the 1940 Act, unless, at the time the acquisition is made, the value of our qualifying assets represent at least 70% of the value of our total assets. The principal categories of qualifying assets relevant to our business are the following:

- Securities purchased in transactions not involving any public offering from an issuer that is an eligible portfolio company. An eligible portfolio company is any issuer that (a) is organized and has its principal place of business in the United States, (b) is not an investment company other than a small business investment company wholly-owned by the BDC, and (c) either (i) (A) does not have any class of securities with respect to which a broker or dealer may extend margin credit, (B) is controlled by the BDC either singly or as part of a group and an affiliated person of the BDC is a member of the issuer's board of directors, or (C) has total assets of not more than \$4 million and capital and surplus of at least \$2 million, or (ii) does not have any class of securities listed on a national securities exchange, unless the total market capitalization of such issuer does not exceed \$250 million. Qualifying assets may also include follow-on investments in a company that was a particular type of eligible portfolio company at the time of the BDC's initial investment, but subsequently did not meet the definition;

- Securities received in exchange for or distributed with respect to securities described above, or pursuant to the exercise of options, warrants or rights relating to such securities; and

- Cash, cash items, government securities, or high quality debt securities maturing in one year or less from the time of investment.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC unless authorized by vote of the holders of the majority of our outstanding voting securities, as defined in the 1940 Act. On January 24, 2019, we received this authorization from our shareholders to withdraw our BDC election. This authorization and others which preceded it that have since expired were provided as a consequence of our Plan of Reorganization announced on May 14, 2014, wherein we stated that we intended to: (i) consummate a Consolidation, (ii) terminate the Fund's election to be classified as a BDC under the 1940 Act, and (iii) be restructured as a publicly-traded operating company focused on the energy, natural resources, technology, or financial services sector. Notwithstanding the present authorization to withdraw our BDC election, we will require a separate affirmative vote of the holders of a majority of our outstanding voting securities to consummate a Consolidation and change the nature of our business (see "*Significant Developments—Plan of Reorganization*" and "*—Authorization to Withdraw BDC Election*" above).

To include certain securities above as qualifying assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance, such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We offer to provide significant managerial assistance to each of our portfolio companies.

*Temporary Investments.* Pending investment in portfolio companies, we invest our available funds in interest-bearing bank accounts, money market mutual funds, U.S. Treasury securities and/or certificates of deposit with maturities of less than one year (collectively, “Temporary Investments”). Temporary Investments may also include commercial paper (rated or unrated) and other short-term securities. Temporary Investments constituting cash, cash items, securities issued or guaranteed by the U.S. Treasury or U.S. Government agencies and high quality debt securities (commercial paper rated in the two highest rating categories by Moody’s Investor Services, Inc. or Standard& Poor’s Corporation, or if not rated, issued by a company having an outstanding debt issue so rated, with maturities of less than one year at the time of investment) will qualify for determining whether we have 70% of our total assets invested in qualifying assets or in qualified Temporary Investments for purposes of the BDC provisions of the 1940 Act.

*Leverage.* We are permitted by the 1940 Act, under specified conditions, to issue multiple classes of senior debt and a single class of preferred stock senior to the common stock if our asset coverage, as defined in the 1940 Act, is at least 200% after the issuance of the debt or the senior stockholders’ interests. In addition, provisions must be made to prohibit any distribution to common stockholders or the repurchase of any shares unless the asset coverage ratio is at least 200% at the time of the distribution or repurchase.

*Fund Share Sales Below Net Asset Value.* To the extent we remain a BDC, we generally may sell our common stock at a price that is below the prevailing net asset value per share only upon the approval of the policy by stockholders holding a majority of our issued shares, including a majority of shares held by nonaffiliated stockholders. We may, in accordance with certain conditions established by the SEC, sell shares below net asset value in connection with the distribution of rights to all of our stockholders. We may also issue shares at less than net asset value in payment of dividends to existing stockholders.

## Table of Contents

*No Redemption Rights.* Since we are a closed-end BDC, our stockholders have no right to present their shares to the Fund for redemption. Recognizing the possibility that our shares might trade at a discount, our Board has determined that it would be in the best interest of our stockholders for the Fund to be authorized to attempt to reduce or eliminate a market value discount from net asset value. Accordingly, from time to time we may, but are not required to, repurchase our shares (including by means of tender offers) to attempt to reduce or eliminate any discount or to increase the net asset value of our shares.

*Affiliated Transactions.* Many of the transactions involving the Fund and its affiliates (as well as affiliates of such affiliates) require the prior approval of a majority of the independent directors and a majority of the independent directors having no financial interest in the transactions. However, certain transactions involving closely affiliated persons of the Fund require the prior approval of the SEC.

## **Regulated Investment Company Tax Status**

As a BDC, we operate to qualify as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). If we qualify as a RIC and annually distribute to our stockholders in a timely manner at least 90% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and capital gains we distribute to our stockholders. Taxable income generally differs from net income as defined by accounting principles generally accepted in the United States due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation.

Generally, in order to maintain our status as a RIC, we must (i) continue to qualify as a BDC; (ii) distribute to our stockholders in a timely manner at least 90% of our investment company taxable income, as defined by the Code; (iii) derive in each taxable year at least 90% of our gross investment company income from dividends, interest, payments with respect to securities loans, gains from the sale of stock or other securities or other income derived with respect to our business of investing in such stock or securities as defined by the Code; and (iv) meet investment diversification requirements. The diversification requirements generally require us at the end of each quarter of the taxable year to have (a) at least 50% of the value of our assets consist of cash, cash items, government securities, securities of other RICs and other securities if such other securities of any one issuer do not represent more than 5% of our assets and 10% of the outstanding voting securities of the issuer and (b) no more than 25% of the value of our assets invested in the securities of one issuer (other than U.S. government securities and securities of other RICs), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses.

In addition, with respect to each calendar year, if we distribute or have treated as having distributed (including amounts retained but designated as deemed distributed) in a timely manner 98% of our net capital gain income for each one-year period ending on October 31, and distribute 98.2% of our investment company net ordinary income for such calendar year (as well as any ordinary income not distributed in prior years), we will not be subject to the 4% nondeductible Federal excise tax imposed with respect to certain undistributed income of RICs.



If we fail to satisfy the 90% distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we will be subject to tax in such year on all of our taxable income, regardless of whether we make any distribution to our stockholders. In addition, in that case, all of our distributions to our stockholders will be characterized as ordinary income (to the extent of our current and accumulated earnings and profits). We have distributed and currently intend to distribute sufficient dividends to eliminate our investment company taxable income; however, none have been necessary in recent years.

### **Custodian**

We act as the custodian of our securities to the extent permitted under the 1940 Act and are subject to the restrictions imposed on self-custodians by the 1940 Act and the rules and regulations thereunder. We have also entered into an agreement with Amegy Bank with respect to the safekeeping of our securities. The principal business office of Amegy Bank is 1717 West Loop South, Houston, Texas 77027.

### **Transfer and Disbursing Agent**

We employ American Stock Transfer & Trust Company as our transfer agent to record transfers of our shares, maintain proxy records and to process distributions. The principal business office of our transfer agent is 6201 15th Avenue, 2nd Floor, Brooklyn, NY 11219.

Table of Contents

**Certifications**

In July 2017, pursuant to Section 303A.12(a) of the NYSE Listed Company Manual, we submitted to the NYSE an unqualified certification of our Chief Executive Officer. In addition, certifications by our Chief Executive Officer and Chief Financial Officer have been filed as exhibits to this annual report on Form 10-K as required by the Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002.

**Forward-Looking Statements**

*All statements contained herein that are not historical facts including, but not limited to, statements regarding anticipated activity are “forward-looking statements” within the meaning of the federal securities laws, involve a number of risks and uncertainties, and are based on the beliefs and assumptions of Management, based on information currently available to Management. Actual results may differ materially. In some cases, readers can identify forward-looking statements by words such as “may,” “will,” “should,” “expect,” “objective,” “plan,” “intend,” “anticipate,” “believe,” “Management believes,” “estimate,” “predict,” “project,” “potential,” “forecast,” “continue,” “strategy,” or “position” or the negative of such terms or other variations of them or by comparable terminology. In particular, statements, express or implied, concerning future actions, conditions, or events, future operating results, or the ability to generate sales, income, or cash flow are forward-looking statements.*

Among the factors that could cause actual results to differ materially are the following: (i) changes in the economic conditions in which we operate, which might negatively impacting our financial resources; (ii) the substantially greater resources of certain of our competitors than the Fund, potentially reducing the number of suitable investment opportunities offered or reducing the yield necessary to consummate the investment; (iii) the uncertainty regarding the value of our privately held securities that require a good faith estimate of fair value for which a change in estimate could affect the Fund’s net asset value; (iv) the illiquidity of our investments in securities of privately held companies which could affect our ability to realize a gain; (v) the default of one or more of our portfolio companies on their loans or the failure of such companies to provide any returns on our investments which could affect the Fund’s operating results; (vi) our dependence on external financing to grow our business; (vii) our ability to retain key management personnel; (viii) an economic downturn or recession that could impair our portfolio companies and therefore harm our operating results; (iv) our borrowing arrangements, which could impose certain restrictions; (x) changes in interest rates that may affect our cost of capital and net operating income; (xi) our inability to incur additional indebtedness unless the Fund maintains an asset coverage of at least 200%, which may affect returns to our stockholders; (xii) the possible failure of the Fund to continue to qualify for our pass-through treatment as a RIC which could have an effect on stockholder returns; (xiii) the volatility of the price of our common stock; (xiv) general business and economic conditions and other risk factors described in its reports filed from time to time with the SEC; and (xv) risks related to our Plan of Reorganization. We caution readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

**Item 1A. Risk Factors**

An investment in our securities involves certain risks relating to our structure and investment objectives. The risks and uncertainties described below are not the only ones facing Equus. You should carefully consider these risks, together with all of the other information included in the annual report on Form 10-K, including our financial statements and the related notes thereto.

Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline and you may lose all or part of your investment.

Table of Contents

**Risks Related to Our Investments**

*Investments in small capitalization companies present certain risks that may not exist to the same degree as investments in larger, more established companies and will cause such investments to be volatile and speculative.*

We have invested and may continue to invest, in private, small and/or new companies that may be in their early stages of development. Investments in these types of companies involve a number of significant risks, including the following:

They typically have shorter operating histories, narrower product lines and smaller market shares than public companies, which tend to render them more vulnerable to competitors' actions and market conditions as well as

- general economic downturns;

They may have no earnings or experienced losses or may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their

- equity securities or any collateral or guarantees provided with respect to their debt;

They are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse effect

- on their business and prospects and, in turn, on our investment;

They may have difficulty accessing the capital markets to meet future capital needs;

- 

They generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require

- substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

Generally little public information exists regarding these companies, and investors in these companies generally

- must rely on the ability of the equity sponsor to obtain adequate information for the purposes of evaluating potential returns and making a fully informed investment decision.

*There is uncertainty regarding the value of our privately held securities.*

Our net asset value is based on the value we assign to our portfolio investments. For investments that are not listed on a securities exchange or quotation medium, we determine the value of our investments in securities for which market quotations are not available as of the end of each calendar quarter, unless there is a significant event requiring a change in valuation in the interim. Because of the inherent uncertainty of the valuation of portfolio securities that do not have readily ascertainable market values, our fair value determination may differ materially from the value that would have been used had a ready market existed for the securities. We determine the fair value of investments for which no market quotations are available based upon a methodology that we believe reaches a reasonable estimation of fair value. However, we do not necessarily apply multiple valuation metrics in reaching this determination and, in some cases, we do not obtain any third party valuations before reaching this determination. Our determinations of the fair value of our investments have a material impact on our net earnings through the recording of unrealized appreciation or depreciation of investments as well as our assessment of interest income recognition. Our net asset value could be affected materially if our determinations of the fair value of our investments differ significantly from values based on a ready market for these securities.

***We depend upon Management for our future investment success.***

We depend upon the diligence and skill of our Management to select, structure, close and monitor our investments. Management is responsible for identifying, structuring, evaluating, monitoring, and disposing of our investments, and the services they collectively provide significantly impact our results of operations. Our future success will depend to a significant extent on the continued service and coordination of Management. Our success will depend on our ability to retain our existing Management and to recruit additional other highly qualified individuals. If we are unable to integrate new investment and management personnel, we may be unable to achieve our desired investment results.

Table of Contents

***Management may not be able to implement our investment objective successfully.***

Our Board is taking a more opportunistic approach to our portfolio investment strategy, shifting our investment emphasis from manufacturing and services to other sectors, such as energy. In order to implement our investment strategy, Management must analyze, conduct due diligence, invest in, monitor and sell investment interests in industries in which many of them have not previously been involved. Also, we expect that our investment strategy will continue to require Management to investigate and monitor investments that are much more broadly dispersed geographically. In addition, Management is required to provide valuations for investments in a broader range of securities, including debt securities, which may require expertise beyond that previously required. We cannot assure investors that the overall risk of their investment in the Fund will be reduced as a result of our investment strategy. If we cannot achieve our investment objective successfully, the value of your investment in our common stock could decline substantially.

***We may not realize gains from our equity investments.***

We frequently invest in the equity securities of our portfolio companies. Also, when we make a loan, we sometimes receive warrants to acquire stock issued by the borrower. Ultimately, our goal is to sell these equity interests and realize gains. These equity interests may not appreciate and, in fact, may depreciate in value. Some of our portfolio companies have experienced net losses in recent years or have negative net worth as of their most recent available balance sheet date. At December 31, 2018, several of our portfolio investments had estimated fair values, based upon our valuation methodologies, significantly below the initial cost of such investments. At December 31, 2018, the cost basis of our portfolio investments was \$18.0 million and our estimated fair value was \$35.0 million, although our equity investments in Equus Media Development Company, LLC, Equus Energy, LLC, and MVC Capital, Inc. had an aggregate fair value of \$13.5 million versus a cost basis of \$16.6 million. Also, the market value of our equity investments may fall below our estimate of the fair value of such investments before we sell them. Given these factors, there is a risk that we will not realize gains upon the sale of those or other equity interests that we hold.

***Our holdings in Equus Energy are subject to commodity price declines endemic to oil and gas companies.***

The oil and gas business is fundamentally a commodity-based enterprise. This means that the operations and earnings of Equus Energy, LLC (“Equus Energy”) may be significantly affected by changes in prices of oil, gas and natural gas liquids. The prices of these products are also dependent upon local, regional and global events or conditions that affect supply and demand for the relevant commodity. In addition, the pricing of these commodities are highly dependent upon technological improvements in energy production and development, energy efficiency, and seasonal weather patterns. Moreover, as a worldwide commodity, the price of oil and natural gas is also influenced by changes in currency exchange rates, interest rates, and inflation. Equus Energy does not employ any hedging strategies in respect of its oil and gas holdings, and is therefore subject to price fluctuations resulting from these and other factors. The operational results and financial condition of Equus Energy, as well as the economic attractiveness of future capital expenditures for new drilling and recompletions, may be materially adversely affected as a result of lower oil and gas prices.

***We may not be able to make additional investments in our portfolio companies from time to time, which may dilute our interests in such companies.***

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company, or may have the opportunity to increase our investment in that company through the exercise of a warrant to purchase common stock or through follow-on investments in the debt or equity of that company. We cannot assure you that we will make, or have sufficient funds to make, any such follow-on investments. Any decision by us not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of investment and may result in a missed opportunity for us to increase our participation in a successful operation. A decision not to make a follow-on investment may also require us to subordinate our debt interest to a new lender or dilute our equity interest in, or reduce the expected yield on, our investment.

***We have invested in a limited number of portfolio companies.***

The Fund is classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. As a matter of policy, we generally have not initially invested more than 25% of the value of our net assets in a single portfolio company. In view of the net asset value of the Fund as of December 31, 2018, however, we would expect that any new investments may exceed this percentage for the immediate future. Moreover, follow-on investments, disproportionate increases or decreases in the fair value of certain portfolio companies or sales of investments may result in more than 25% of our net assets being invested in a single portfolio company at a particular time.

Table of Contents

A consequence of a limited number of investments is that 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 our 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 a greater number of investments.

***The lack of liquidity of our privately held securities may adversely affect our business***

Our portfolio investments consist principally of securities that are subject to restrictions on sale because they are not listed or publicly traded securities. If any of these securities were to become publicly traded, our ability to sell them may still be restricted because we acquired them from the issuer in "private placement" transactions or because we may be deemed to be an affiliate of the issuer. We will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act and applicable state securities laws, unless an exemption from such registration requirements is available. In addition, contractual or practical limitations may restrict our ability to liquidate our securities in portfolio companies because those securities are privately held and we may own a relatively large percentage of the issuer's outstanding securities. Sales also may be limited by market conditions, which may be unfavorable for sales of securities of particular issuers or generally. The illiquidity of our investments may preclude or delay any disposition of such securities, which may make it difficult for us to obtain cash equal to the value at which we record our investments if the need arises.

***In situations where we hold junior priority liens, our ability to control decisions with respect to our portfolio companies may be limited by lenders holding superior liens. In a default scenario, the value of collateral may be insufficient to repay us after the senior priority lenders are paid in full.***

We make certain loans to portfolio companies that are secured by a junior priority security interest in the same collateral pledged to secure debt owed to lenders with liens senior to ours. Often, the senior lender has procured covenants from the portfolio company prohibiting the incurrence of additional secured debt without the senior lender's consent. As a condition of permitting the portfolio company to incur junior secured indebtedness, the senior lender will require that we, as junior lender, enter into an intercreditor agreement that, among other things, will establish the senior lender's right to control the disposition of any collateral in the event of an insolvency proceeding or other default situation. In addition, intercreditor agreements generally will expressly subordinate junior liens to senior liens as well as the repayment of junior debt to senior debt.

Because of the control we may cede to senior lenders under intercreditor agreements, we may be unable to control the manner or timing of collateral disposition. In addition, the value of collateral securing our debt investment will ultimately depend on market and economic conditions at the time of disposal, the availability of buyers and other factors. Therefore, we cannot assure you that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by our liens. There is also a risk that such collateral securing our investments will be difficult to sell in a timely manner or to appraise. If the proceeds of the collateral are insufficient to repay our loans, then we will have an unsecured claim to the extent of the deficiency against any of the company's remaining assets, which claim will likely be shared with many other unsecured creditors.



*As a debt or minority equity investor in a portfolio company, we may have little direct influence over the entity. The stockholders and management of the portfolio company may make decisions that could decrease the value of our portfolio holdings.*

We make both debt and minority equity investments. Should a portfolio company make business decisions with which we disagree, or the stockholders and management of that company take risks or otherwise act in ways that do not serve our interests, the value of our portfolio holdings could decrease and have an adverse effect on our financial position and results of operations.

*We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.*

We structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay dividends, could adversely affect our results of operation and financial condition and cause the loss of all or part of your investment.

Table of Contents

*We have limited public information regarding the companies in which we invest.*

Except for our holdings in MVC Capital, Inc., our portfolio consists entirely of securities issued by privately-held companies. There is generally little or no publicly available information about such companies, and we must rely on the diligence of Management to obtain the information necessary for our decision to invest in them and in order to monitor them effectively. We cannot assure you that such diligence efforts will uncover all material information about such privately held businesses necessary to make fully informed investment decisions.

*Our portfolio companies may be highly leveraged.*

Investments in leveraged buyouts and in highly leveraged companies involve a high degree of business and financial risk and can result in substantial losses. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used. The use of leverage by portfolio companies also magnifies the increase or decrease in the value of our investment as compared to the overall change in the enterprise value of a portfolio company.

Some of our portfolio companies have incurred substantial debt in relation to their equity capital. Such indebtedness generally has a term that will require that the balance of the loan be refinanced when it matures. If a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its debt or is not successful in refinancing the debt upon its maturity, our investment could be reduced or eliminated through foreclosure on the portfolio company's assets or by the portfolio company's reorganization or bankruptcy.

A substantial portion of the debt incurred by portfolio companies may bear interest at rates that fluctuate in accordance with a stated interest rate index or the prime lending rate. The cash flow of a portfolio company may not be sufficient to meet increases in interest payments on its debt. Accordingly, the profitability of our portfolio companies, as well as the value of our investments in such companies, will depend significantly upon prevailing interest rates. In recent months, the level of interest rates has increased, which will have an adverse effect on the ability of our portfolio companies to service their floating rate debt and on their profits.

Leverage may impair the ability of our portfolio companies to finance their future operations and capital needs. As a result, the ability of our portfolio companies to respond to changing business and economic conditions and to business opportunities may be limited.

*The use of leverage may adversely affect our performance.*

We may utilize leverage for the Fund or its subsidiaries by borrowing or issuing preferred stock or short-term debt securities. Borrowings and other capital generated from leverage will result in lenders and other creditors with fixed dollar claims on our assets that are superior to the claims of our common shareholders. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Leverage is generally considered a speculative investment technique.

*Our business depends on external financing.*

Our business requires a substantial amount of cash to operate. We may borrow funds to pay contingencies or expenses or to make investments, to maintain our pass-through tax status as a RIC under Subchapter M of the Code. We are permitted under the 1940 Act to borrow if, immediately after the borrowing, we have an asset coverage ratio of at least 200%. That is, we may borrow an amount equal to as much as 50% of the fair value of our total assets (including investments made with borrowed funds). The amount and nature of any such borrowings depend upon a number of factors over which we have no control, including general economic conditions, conditions in the financial markets and the impact of the financing on the tax treatment of our stockholders. The use of leverage, even on a short-term basis, could have the effect of magnifying increases or decreases in our net asset value.

While the “spread” between the current yields on our investments and the cost of any loan would augment the return to our stockholders, if the spread narrows (because of an increase in the cost of debt or insufficient income on our investments), our net investment income, and consequently our ability to provide distributions to our stockholders, could be adversely affected. This may also render us unable to meet our obligations to our lenders, which might then require us to liquidate some or all of our investments. We cannot assure you that we would realize full value for our investments or recoup all of our capital if we needed to liquidate our portfolio investments.

Table of Contents

Many financial institutions are unwilling to lend against a portfolio of illiquid, private securities. The make-up of our portfolio has made it more difficult for us to borrow at the level and on the terms that we desire. Our borrowings have historically consisted of a revolving line of credit which has since expired, and a margin account used quarterly to enable us to achieve adequate diversification to maintain our pass-through tax status as a RIC. Although we believe the Fund's liquidity is sufficient for our operating expenses for the next twelve months, we could be wrong. If we are wrong, we would have to obtain capital from other sources to pay Fund expenses, which could involve selling one or more of our portfolio holdings at an inopportune time and at a price that may be less than would be received if such holding were sold in a more competitive and orderly manner.

The costs of borrowing money may exceed the income from the portfolio securities we purchase with the borrowed money. We will suffer a decline in net asset value if the investment performance of the additional securities purchased with borrowed money fails to cover their cost to the Fund (including any interest paid on the money borrowed). A decline in net asset value could affect our ability to make distributions on our common stock. Our failure to distribute a sufficient portion of our net investment income and net realized capital gains could result in a loss of pass-through tax status or subject us to a 4% excise tax. If the asset coverage for debt securities issued by the Fund declines to less than 200% (as a result of market fluctuations or otherwise), we may be required to sell a portion of our investments when it is disadvantageous to do so. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

***We have had net investment losses in the past five years.***

We have had net investment losses in the past five years, with a net investment loss of \$3.6 million for the year ended December 31, 2018. We cannot assure you that we will be able to increase our net assets or generate net investment income. If we fail to increase the Fund's net assets or generate net investment income, such failure will likely have a material adverse effect upon the Fund, our results of operation, and our financial condition. You could lose all or a substantial amount of your investment in the Fund as a result.

We do not currently intend to recommence our managed distribution policy and you might not receive dividends on your shares.

On March 24, 2009, we announced a suspension of our managed distribution policy and payment of quarterly dividends for an indefinite period. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund's market value per share as at the end of the preceding calendar year. We subsequently undertook certain changes in our Board and Management. These changes have been pursued, in part, with the objective of increasing the number of attractive investment opportunities to us and revising our investment strategy to include more recurrent cash income producing investments, all of which could ultimately result in the resumption of our managed distribution policy at some time in the future. The implementation of these revisions to

our investment strategy and the recurrent generation of cash income from our investments, however, cannot be guaranteed and will not occur if we complete the Consolidation. If we were unable to resume our managed distribution policy and were further unable to profitably sell or otherwise dispose of our portfolio company investments, you might not receive dividends on your shares.

***We operate in a highly competitive market for investment opportunities***

We compete with a large number of private equity funds and mezzanine funds, investment banks and other equity and non-equity based investment funds, investment entities, foreign investors and individuals and other sources of financing, including traditional financial services companies such as commercial banks. In recent years, the number of investment vehicles seeking small capitalization investments has increased dramatically. Many of our competitors are substantially larger and have considerably greater financial resources than we do, and some may be subject to different and frequently less stringent regulation. As our portfolio size increases, we expect that some of our investments will be larger. We believe that we will face increased competition to participate in these larger transactions. These competitors may have a lower cost of funds and many have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

***An economic downturn could affect our operating results.***

An economic downturn may have a particularly adverse effect upon small and medium-sized companies, which are our primary market for investments. During periods of volatile economic conditions, these companies often experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies also may have difficulty expanding their businesses and operations and may be unable to meet their debt service obligations or other expenses as they become due. Any of the foregoing developments could cause the value of our investments in these companies to decline. In addition, during periods of adverse economic conditions, we may have difficulty accessing financial markets, which could make it more difficult or impossible for us to obtain funding for additional investments. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

***We may experience fluctuations in our quarterly results.***

We may experience fluctuations in our quarterly operating results due to a number of factors, including variations in, and the timing of, the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, the ability to find and close suitable investments and general economic conditions. The volatility of our results is exacerbated by our relatively small number of investments. As a result of these factors, you should not rely on our results for any period as being indicative of performance in future periods.

***The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.***

Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Our due diligence review with respect to a potential portfolio company typically includes, but is not limited to, a review of historical and prospective financial information including audits and budgets, on-site visits and interviews with management, employees, customers and vendors, a review of business plans and an analysis of the consistency of operations with those plans, and other research relating to the company, management, industry, markets, products and services, and competitors. Outside consultants, legal advisers, accountants and investment banks are expected to be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we are required to rely on resources available to us, including information provided by the portfolio company and, in some circumstances, third party investigations. The due diligence process may at times be subjective, including with respect to newly organized companies for which only limited information

is available. Accordingly, we cannot assure you that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. We also cannot assure you that such an investigation will result in an investment being successful.

## **Risks Related to Our Business and Structure**

*Our ability to invest in private companies may be limited in certain circumstances.*

Pursuant to our Plan of Reorganization, we have been authorized by our stockholders to withdraw our election to be classified as a BDC prior to July 31, 2019. Our management is currently evaluating potential transactions that would result in a Consolidation and the withdrawal of our BDC election within this time frame, but we may nevertheless not consummate any such Consolidation and remain a BDC. If we maintain our status as a BDC and do not complete the Consolidation to become an operating company, we must not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. A principal category of qualifying assets relevant to our business is securities purchased in transactions not involving any public offering from issuers that qualify as eligible portfolio companies under the 1940 Act. Investments in companies organized outside of the United States or having a principal place of business outside of the United States are also not considered eligible portfolio companies.

*Any failure on our part to maintain the Fund’s status as a BDC could reduce our operating flexibility.*

If we do not maintain the Fund’s status as a BDC and we do not complete the Consolidation, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act. This could impose tighter limitations on Equus in terms of the use of leverage and transactions with affiliated entities. Such developments could correspondingly decrease our operating flexibility.

Table of Contents

***We may not continue to qualify as a RIC under the Code.***

To remain entitled to the tax benefits accorded to RICs under the Code while we maintain our status as a BDC, we must meet certain income source, asset diversification and annual distribution requirements. To qualify as a RIC, we must derive each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or foreign currencies, or other income derived with respect to our business of investing in such stock or securities or currencies and net income from interests in certain “qualified” publicly traded partnerships. The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary net taxable income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. As discussed above in “*Our business depends on external financing*,” we historically have borrowed funds necessary to make qualifying investments to satisfy the Subchapter M diversification requirements. If we fail to satisfy such diversification requirements and cease to qualify for conduit tax treatment, we will be subject to income tax on our income and gains and will not be permitted to deduct distributions paid to stockholders. In addition, our distributions will be taxable as dividends to the extent paid from earnings and profits. We may also cease to qualify as a RIC, or be subject to income tax and/or a 4% excise tax, if we fail to distribute a sufficient portion of our net investment income and net realized capital gains. The loss of our RIC qualification would have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.

***Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, if we continue to operate as a BDC and as a RIC, we will need additional capital to finance our growth.***

Pursuant to our Plan of Reorganization, we have been authorized by our stockholders to withdraw our election to be classified as a BDC on or prior to July 31, 2019, which also means that we will not operate as a RIC. Our management is currently evaluating potential transactions that would result in a Consolidation and the withdrawal of our BDC election and RIC status within this time frame, but we may nevertheless not consummate any such Consolidation and remain a BDC and continue to seek to qualify as a RIC. In order to qualify as a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, for so long as we maintain our status as a BDC, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain net long-term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our stockholders). As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt and require us to issue additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.



***Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.***

Our Board of Directors has the authority to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. As described above under “*Significant Developments – Authorization to Withdraw BDC Election*”, our shareholders have previously provided this authorization and may do so again in the future, although we will not withdraw our election as a BDC unless and until we have entered into a definitive agreement to effect a Consolidation. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, any such effects may adversely affect our business and impact our ability to make distributions.

Table of Contents

**Risks Related to Our Operation as a BDC**

*Our ability to enter into transactions with our affiliates is restricted.*

Pursuant to our Plan of Reorganization, we have been authorized by our stockholders to withdraw our election to be classified as a BDC prior to July 31, 2019. Our management is currently evaluating potential transactions that would result in a Consolidation and the withdrawal of our BDC election within this time frame, but we may nevertheless not consummate any such Consolidation and remain a BDC. If we maintain our status as a BDC and do not complete the Consolidation to become an operating company, we will continue to be subject to the 1940 Act. As an investment company, we are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we generally are prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain “joint” transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates.

*Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.*

Our business requires a substantial amount of additional capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as “senior securities,” and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such issuance or incurrence. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

*Senior Securities.* As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank “senior” to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than that of our common stockholders. Furthermore, the issuance of preferred securities

could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.

*Additional Common Stock.* Our Board of Directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our independent directors. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our Board of Directors, closely approximates the market value of such securities (less any commission or discount). We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to the 1940 Act. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution.

***Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.***

To the extent we remain a BDC, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

Table of Contents

**Risks Related to Our Announced Plan of Reorganization**

*Pursuant to our Plan of Reorganization, we are exploring and evaluating strategic alternatives for the Fund and we cannot assure you that we will be successful in identifying a strategic alternative, that such strategic alternative will yield additional value for our stockholders or that the process will not have an adverse impact on our business.*

On May 14, 2014, we announced that we had adopted a Plan of Reorganization within the meaning of Section 2(a)(33) of the 1940 Act. The Plan of Reorganization contemplates the possible merger of the Fund with and into another BDC, or the restructuring of the Fund as an operating company no longer subject to the 1940 Act, which is referred to in the Plan of Reorganization as a “Consolidation”. A Consolidation could constitute, among other things, a sale of Equus, a restructuring, a recapitalization, merger, or other business combination. We cannot provide any assurance that the exploration of strategic alternatives will result in the identification or consummation of a Consolidation. Similarly, any strategic decision will involve risks and uncertainties, and we cannot provide any assurance that any strategic alternative, if identified, evaluated and consummated, will provide the anticipated benefits or otherwise enhance stockholder value. The process is ongoing and, although we believe we will consummate a Consolidation during 2019, we may be wrong. Our Board of Directors has not set a timetable for completion of the evaluation of a potential Consolidation.

We expect to incur substantial costs associated with identifying and evaluating potential strategic alternatives incident to a Consolidation. Any potential transaction would be dependent upon a number of factors that may be beyond our control, including, among other factors, market conditions, industry trends, the interest of third parties in our business, stockholder approval and the availability of financing to potential buyers or to Equus on reasonable terms. The process of exploring strategic alternatives may be time consuming and disruptive to our business operations. We are also subject to other risks in connection with the uncertainty created by the strategic review process, including stock price volatility and the ability to retain qualified employees. We do not currently intend to disclose further developments with respect to this process, unless and until our Board of Directors approves a specific transaction or otherwise concludes the review of strategic alternatives.

If we are unable to effectively manage the strategic review process, our business, financial condition, liquidity and results of operations could be adversely affected (see “*Significant Developments—Plan of Reorganization*” above).

*If we reorganize as an operating company, we will likely not continue to qualify as a RIC under the Code.*

Pursuant to our Plan of Reorganization, if we were to reorganize as an operating company, we may lose our status as a RIC. If we fail to qualify as a RIC, we will be subject to corporate income tax, which would substantially reduce the amount of income we might otherwise distribute to our shareholders (see “*Significant Developments—Plan of*

*Reorganization” above).*

***If we reorganize as an operating company, we will not continue to operate as a BDC.***

We have elected to be classified as a BDC under the 1940 Act. In connection with our announcement on May 14, 2014 to effect a Plan of Reorganization, if we effect a reorganization of the Fund into an operating company, we will seek to terminate our BDC classification. On January 21, 2019, holders of a majority of the outstanding common stock of the Fund approved our cessation as a BDC under the 1940 Act and authorized our Board to cause the Fund’s withdrawal of its election to be classified as a BDC, effective as of a date designated by the Board and our Chief Executive Officer, but no later than July 31, 2019. Nevertheless, if we were to terminate our election to be classified as a BDC and were still determined by the SEC to constitute an “investment company,” we would be subject to significantly greater regulatory requirements and constraints than under those which we presently operate, the result of which could have a material adverse effect on our results and financial condition.

***If we reorganize as an operating company, we may not be able to utilize our capital losses.***

As of December 31, 2018, we have incurred cumulative capital losses of \$16.9 million, which can be carried over indefinitely. Pursuant to the Plan of Reorganization announced on May 14, 2014, we may reorganize as an operating company. If we reorganize as an operating company, we may lose our ability to offset future income against our cumulative capital losses, including capital losses that would otherwise continue past 2018. If we reorganized as an operating company and were unable to offset future income against these capital losses, the result could have a material adverse effect on our future operating results and our financial condition.

Table of Contents

*If we reorganize as an operating company, our stockholders will no longer have certain protections under the 1940 Act.*

If we withdraw the Fund's election to be treated as a BDC, Equus will no longer be subject to regulation under the 1940 Act, which is designed to protect the interests of investors in investment companies. Specifically, our stockholders would no longer have the following protections of the 1940 Act:

*Leverage Limits.* We would no longer be subject to the requirement in Section 61 of the 1940 Act that we maintain a ratio of assets to senior securities (such as senior debt or preferred stock) of at least 200% and we would not be limited by statute or regulation to the amount of leverage we could incur.

*Range of Investments.* We would no longer be prohibited from investing in certain types of companies, such as brokerage firms, insurance, companies, and investment companies.

*Changes in Financial Reporting.* While the conversion of Equus into an operating company will enable us to consolidate the financial results of entities we control, a change in our method of accounting could also reduce the reported value of our investments in controlled privately-held companies by eliminating our ability to report an increase in the fair value of these holdings.

*Protection of Directors and Officers.* We would no longer be prohibited from protecting any director or officer against any liability to the Fund or our stockholders arising from willful malfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of that person's office, although there are similar limitations under Delaware law, our Certificate of Incorporation, and our Bylaws that would still apply.

*Fidelity Bond.* We would no longer be required to provide and maintain an investment company blanket bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement.

*Director Independence.* We would no longer be required to ensure that a majority of our directors are persons who are not "interested persons," as that term is defined in the 1940 Act, and certain persons, such as investment bankers, that would be prevented from serving on our Board if we were a BDC. However, assuming we can comply with the NYSE's listing standards for operating companies, we will remain subject to NYSE listing standards that require the majority of directors of a listed company and all members of its compensation, audit and nominating committees to be "independent" as defined under NYSE rules.

*Affiliate Transactions.* We would no longer be subject to provisions of the 1940 Act regulating transactions between BDCs and certain affiliates, although we would still be subject to conflict of interest rules and governance procedures that exist under Delaware law and NYSE rules.

•

*Share Issuances.* We would no longer be subject to provisions of the 1940 Act restricting our ability to issue shares below NAV or in exchange for services, nor would we be restricted in issuing more than one class of equity securities or instruments that could be converted into other classes of equity securities.

*Share Repurchases.* We would no longer be restricted under the 1940 Act in our ability to repurchase shares from our stockholders, and would instead be subject only to NYSE rules and Delaware corporate law requirements for such repurchases.

*Change of Business.* We would be able to change the nature of our business and fundamental investment policies without having to obtain the approval of our stockholders.

*Director and Officer Incentives.* We would no longer require exemptive relief from the SEC before implementing incentive compensation plans for our key executives and non-executive directors.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We do not own any real estate or other physical properties. Our principal executive offices are located at 700 Louisiana St. 48<sup>th</sup> Floor, Houston, Texas 77002. We believe that these leased office facilities are suitable and adequate for the business as it is contemplated to be conducted.

Table of Contents

**Item 3. *Legal Proceedings***

**Shareholder Complaint**— On November 16, 2016, Samuel Zalmanoff filed a lawsuit against the Fund and members of the Board of Directors in the Court of Chancery in the State of Delaware. The lawsuit was filed in connection with the Fund’s 2016 Equity Incentive Plan (“Incentive Plan”) which was adopted by the Board of Directors on April 15, 2016, approved by the Equus shareholders on June 13, 2016, and approved, with certain standard exceptions, by the Securities and Exchange Commission on January 10, 2017. Mr. Zalmanoff’s complaint, which purports to be on behalf of all non-affiliate Equus shareholders entitled to vote for the Incentive Plan, purports to allege a breach by the Board of Directors of its fiduciary duties of disclosure in connection with the Incentive Plan, and seeks an order from the court: (i) enjoining implementation of the Incentive Plan, (ii) requiring the Fund to revise its disclosures relating to the Incentive Plan, and (iii) for an award of costs, attorneys’ fees, and expenses. We believe that this lawsuit, and the allegations included therein, are without merit and intend to continue a vigorous defense against the same. On September 22, 2017, we filed a motion for summary judgment regarding this action, which was granted by the Chancery Court on November 13, 2018. Mr. Zalmanoff appealed the Chancery Court ruling to the Delaware Supreme Court and the matter has been briefed for oral argument and a subsequent decision in the coming months.

From time to time, the Fund is also a party to certain proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these proceedings will have a material effect upon the Fund’s financial condition or results of operations.

**Item 4. *Mine Safety Disclosures***

Not applicable.

**PART II**

**Item 5. *Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is listed on the NYSE under the symbol “EQS”. We had approximately 2,300 stockholders as of December 31, 2018, 705 of whom were registered holders. Registered holders do not include those stockholders whose stock has been issued in street name. As of December 31, 2018, our net asset value per share was \$3.22.



The following table reflects the high and low closing sales prices per share of our common stock on the NYSE, and net asset value (“NAV”) per share for the two years ended December 31, 2018, by quarter:

	2018				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	\$2.45	\$2.42	\$2.35	\$2.20	\$2.49	\$2.97	\$2.44	\$2.44
Low	2.34	2.34	1.95	1.89	2.00	2.25	2.24	2.29
NAV	3.20	3.26	3.45	3.22	3.06	3.12	3.11	3.18

As a RIC, we are required to distribute to our stockholders, in a timely manner, at least 90% of our taxable net investment income each year. If we do not distribute, in a timely manner, 98.2% of our taxable net capital gains and 90% of our taxable net investment income each year (as well as any portion of the respective 2% balances not distributed in the previous year), we will be subject to a 4% non-deductible federal excise tax on certain undistributed income of regulated investment companies. Under the 1940 Act, we are not permitted to pay dividends to stockholders unless we meet certain asset coverage requirements. If taxable net investment income is retained, we will be subject to federal income and excise taxes. We reserve 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 our stockholders will be able to claim their proportionate share of the federal income taxes paid by the Fund 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 invest in companies that are believed to have a high potential for capital appreciation, and we intend to realize the majority of our profits upon the sale of our investments in portfolio companies. Consequently, most of the companies in which we invest do not have established policies of paying annual dividends. However, a portion of the investments in portfolio securities held by the Fund consists of interest-bearing subordinated debt securities or dividend-paying preferred stock.

Table of Contents**Item 6. Selected Financial Data**

The following is a summary of selected financial data and per share data of the Fund for the five years ended December 31, 2018 (in thousands, except per share data):

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total investment income	\$480	\$560	\$748	\$446	\$965
Net investment loss	(3,555 )	(4,014 )	(2,451 )	(2,351 )	(2,418 )
Net realized (loss) gain of portfolio securities	9	(5 )	(13 )	(2,483 )	660
Net change in unrealized appreciation (depreciation) of portfolio securities	4,812	2,236	7,347	6,755	2,116
Net change in unrealized appreciation (depreciation) of portfolio securities - related party	(1,215 )	954	549	(814 )	(1,725 )
Net increase (decrease) in net assets resulting from operations	51	(829 )	5,432	1,107	(1,367 )
Total assets	70,941	61,204	73,146	52,530	52,038
Net assets	43,495	43,007	42,740	37,308	36,201
Net cash (used in) provided by operating activities	(12,263)	10,710	(20,069)	1,338	(3,367 )
Shares outstanding at end of year	13,518	13,518	12,674	12,674	12,674
Weighted average shares outstanding, basic	13,518	13,435	12,674	12,674	11,904
Per Share Data:					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net investment loss	\$(0.27 )	\$(0.30 )	\$(0.19 )	\$(0.19 )	\$(0.20 )
Net realized (loss) gain of portfolio securities	—	—	—	(0.20 )	0.06
Net change in unrealized appreciation (depreciation) of portfolio securities	0.27	0.24	0.62	0.47	0.03
Decrease in net assets resulting from capital transactions	0.04	(0.13 )	—	—	—
Net increase (decrease) in net amounts resulting from operations per share, basic and diluted	0.04	(0.19 )	0.43	0.08	(0.11 )
Net asset value (including unrealized appreciation)	3.22	3.18	3.37	2.94	2.86

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

Equus is a 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. On May 15, 2014, we announced that the Fund had adopted a Plan of Reorganization that would, if effected, transform Equus into an operating company. On January 21, 2019, our shareholders authorized our Board to withdraw our BDC election at any time before July 31, 2019. Nevertheless, we will not withdraw this election unless and until we have entered into a definitive agreement to effect a Consolidation. Further, we will require a subsequent affirmative vote from holders of a majority of our outstanding voting shares to enter into any such definitive agreement or change the nature of our business. See "*Significant Developments – Plan of Reorganization and Share Exchange with MVC Capital*" and "*– Authorization to Withdraw BDC Election*" above.

Table of Contents

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of the Fund's total assets in "qualifying assets," including securities of private U.S. companies, certain public U.S. companies with a total market capitalization not in excess of \$250 million, cash, cash equivalents, U.S. government securities and short-term high-quality debt investments. Equus is a RIC under Subchapter M of the Code. To qualify as a RIC, we must meet certain source of income and asset diversification requirements. If we comply with the provisions of Subchapter M, the Fund generally does not have to pay corporate-level income taxes on any income that distributed to our stockholders.

*Investment Income.* We generate investment income from interest payable on the debt securities that the Fund holds, dividends received on equity interests in our portfolio companies and capital gains, if any, realized upon sales of equity and, to a lesser extent, debt securities in the investment portfolio. Our equity investments may include shares of common and preferred stock, membership interests in limited liability companies and warrants to purchase additional equity interests. These equity securities may or may not pay dividends, and the exercise prices of warrants that we acquire in connection with debt investments, if any, vary by investment. Our debt investments in portfolio companies may be in the form of senior or subordinated loans and may be unsecured or have a first or second lien on some or all of the assets of the borrower. Our loans typically have a term of three to seven years and bear interest at fixed or floating rates. Interest on these debt securities is generally payable either quarterly or semiannually. Some promissory notes held by the Fund provide that a portfolio company may elect to pay interest in cash or provide that discount interest may accrete in the form of original issue discount or payment-in-kind (PIK) over the life of the notes by adding unpaid interest amounts to the principal balance. Amortization of principal on our debt investments is generally deferred for several years from the date of initial investment. The principal amount of these debt securities and any accrued but unpaid interest generally will become due at maturity. We also earn interest income at market rates on investments in short-term marketable securities. From time to time, we generate income in the form of commitment, origination, structuring, and extension fees in connection with our investments. We recognize all such fees when earned.

*Expenses.* Currently, our primary operating expenses include director fees and expenses, professional fees, compensation expense, general and administrative fees, and professional fees incurred in connection with our Plan of Reorganization. During 2018, we did not incur any non-recurring expenses. During 2017, we incurred non-recurring expenses of \$2.5 million related to transaction costs described under *Significant Developments – Agreement to Acquire Portfolio Company of MVC* above.

*Non-Operating Subsidiary.* We have established Equus Total Return (Canada) Inc. as a wholly-owned subsidiary to facilitate payments to Canadian personnel and contractors who provide services to the Fund. We consider Equus Total Return (Canada) Inc. a disregarded entity for accounting purposes, inasmuch as it does not have active operations.

*Operating Activities.* We use cash to make new investments and follow-on investments in our existing portfolio companies. We record these investments at cost on the applicable trade date. Realized gains or losses are computed using the specific identification method. On an ongoing basis, we carry our investments in our financial statements at fair value, as determined by our board of directors. See "*Critical Accounting Policies – Valuation of Investments*" below.

As of December 31, 2018, we had invested 87.6% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. At that time, we had invested 57.1% by value in shares of common stock, 20.2% in membership interests in limited liability companies, and 2.2% in various debt instruments.

*Commitments.* Under certain circumstances, we make follow-on investments in some of our portfolio companies. As of December 31, 2018, we had no outstanding commitments to our portfolio company investments.

*Financing Activities.* From time to time, we use leverage to finance a portion of our investments. We then repay such debt from the sale of portfolio securities. Under the 1940 Act, we have the ability to borrow funds and issue debt securities or preferred stock that are referred to as senior securities, subject to certain restrictions including an overall limitation on the amount of outstanding debt, or leverage, relative to equity of 1:1. Because of the nature and size of our portfolio investments, we periodically borrow funds to make qualifying investments in order to maintain our qualification as a RIC. During 2018 and 2017, we borrowed such funds by accessing a margin account with a securities brokerage firm. We invest the proceeds of these margin loans in high-quality securities such as U.S. Treasury securities until they are repaid. We refer to these high-quality investments as “restricted assets” because they are not generally available for investment in portfolio companies under the terms of borrowing. If, in the future, we cannot borrow funds to make such qualifying investments at the end of any future quarter, we may not qualify as a RIC and would become subject to corporate-level income tax on our net investment income and realized capital gains, if any. In addition, our distributions to stockholders would be taxable as ordinary dividends to the extent paid from earnings and profits. See “*Federal Income Tax Considerations.*”

*Distributions.* So long as we remain a BDC, we will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

Table of Contents

*Possible Share Repurchase.* As a closed-end BDC, our shares of common stock are not redeemable at the option of stockholders, and our shares currently trade at a discount to their net asset value. Our Board has determined that it would be in the best interests of our stockholders to reduce or eliminate this market value discount. Accordingly, we have been authorized to, and may from time to time, repurchase shares of our outstanding common stock (including by means of tender offers or privately negotiated transactions) in an effort to reduce or eliminate this market discount or to increase the net asset value of our shares. We are not required to undertake, and we have not previously undertaken, any such share repurchases, nor do we further anticipate taking any such action in 2019.

**2016 Equity Incentive Plan**

On June 13, 2016, our shareholders approved the adoption of our 2016 Equity Incentive Plan (“Incentive Plan”). On January 10, 2017, the SEC issued an order approving the Incentive Plan and certain awards intended to be made thereunder. The Incentive Plan is intended to promote the interests of the Fund by encouraging officers, employees, and directors of the Fund and its affiliates to acquire or increase their equity interest in the Fund and to provide a means whereby they may develop a proprietary interest in the development and financial success of the Fund, to encourage them to remain with and devote their best efforts to the business of the Fund, thereby advancing the interests of the Fund and its stockholders. The Incentive Plan is also intended to enhance the ability of the Fund and its affiliates to attract and retain the services of individuals who are essential for the growth and profitability of the Fund. The Incentive Plan permits the award of restricted stock as well as common stock purchase options. The maximum number of shares of common stock that are subject to awards granted under the Incentive Plan is 2,434,728 shares. The term of the Incentive Plan will expire on June 13, 2026. On March 17, 2017, we granted awards of restricted stock under the Plan to certain of our directors and executive officers in the aggregate amount of 844,500 shares. The awards are each subject to a vesting requirement over a 3-year period unless the recipient thereof is terminated or removed from their position as a director or executive officer without “cause”, or as a result of constructive termination, as such terms are defined in the respective award agreements entered into by each of the recipients and the Fund. We account for share-based compensation using the fair value method, as prescribed by ASC 718, Compensation—Stock Compensation. Accordingly, for restricted stock awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant and amortize the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term. In connection with these awards, we recorded compensation expense of \$0.4 million and \$1.1 million respectively, for the years ended December 31, 2018 and December 31, 2017.

**Critical Accounting Policies and Estimates**

We follow the accounting and reporting guidance in FASB Accounting Standards Codification Topic 946 “*Financial Services – Investment Companies*.” Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently

affect our financial condition and results of operations.

### *Valuation of Investments*

For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board has approved a multi-step valuation process each quarter, as described below:

1. Each portfolio company or investment is reviewed by our investment professionals;

With respect to investments with a fair value exceeding \$2.5 million that have been held for more than one year,

2. we engage independent valuation firms to assist our investment professionals. These independent valuation firms conduct independent valuations and make their own independent assessments;

3. Our Management produces a report that summarized each of our portfolio investments and recommends a fair value of each such investment as of the date of the report;

The Audit Committee of our Board reviews and discusses the preliminary valuation of our portfolio investments as recommended by Management in their report and any reports or recommendations of the independent valuation

4. firms, and then approves and recommends the fair values of our investments so determined to our Board for final approval; and

5. The Board discusses valuations and determines the fair value of each portfolio investment in good faith based on the input of our Management, the respective independent valuation firm, as applicable, and the Audit Committee.

Table of Contents

During the first twelve months after an investment is made, we rely on 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).

Investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate.

For this purpose, we consider capitalization rates for similar enterprises as may be obtained from guideline public companies and/or relevant transactions. The liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in fair value pricing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment. However, in addition to the previously described analysis involving allocation of value to the debt instrument, we perform a yield analysis assuming a hypothetical current sale of the security to determine if a debt security has been impaired. The yield analysis considers changes in interest rates and changes in leverage levels of the portfolio company as compared to the market interest rates and leverage levels. Assuming the credit quality of the portfolio company remains stable, the Fund will use the value determined by the yield analysis as the fair value for that security if less than the cost of the investment.



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.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to \$30.7 million and \$25.9 million as of December 31, 2018 and 2017, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. As of December 31, 2018 and December 31, 2017, one of our portfolio investments, MVC Capital, Inc., was publicly listed on the NYSE with 527,138 common shares and 496,208 common shares, respectively.

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 report those amounts to Lipper Analytical Services, Inc. Our net asset value appears in various publications, including *Barron's* and *The Wall Street Journal*.

### ***Federal Income Taxes***

So long as we maintain our status as a BDC, we intend to comply with the requirements of the Code necessary for us to qualify as a RIC. So long as we comply with these requirements, we generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. Therefore, we did not record a provision for federal income taxes in our financial statements. As of December 31, 2018, we had a capital loss carry forward of \$15.8 million which may be used to offset future capital gains. We may borrow money from time to time to maintain our status as a RIC under the Code. See “*Overview – Financing Activities*” above.

Table of Contents

***Interest Income Recognition***

We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We accrete or amortize discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities.

***Payment in Kind Interest***

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

**Recent Accounting Pronouncements**

See the Fund's Accounting Standards Recently Adopted and Accounting Standards Not Yet Adopted from the disclosure set forth in Footnote 9 in the notes to the Financial Statements.

***Current Market Conditions***

Overall economic conditions in the United States have continued to improve, with GDP up 2.9% for 2018, up from 2.3% in 2017. However, the Conference Board is forecasting 2.7% GDP growth in 2019, slowing to 2.2% in 2020, while the IMF is forecasting GDP growth of 2.5% and 1.8% for 2019 and 2020, respectively. These projected decreases are largely attributed to international trade tensions and the tapering of beneficial effects resulting from changes in the U.S. tax code which were approved by Congress in December 2017. The unemployment rate of 3.7% is projected to decrease somewhat further during 2019, which may add some inflation pressure during the year. In light of slowing growth and moderate inflation, the Federal Reserve is generally not expected to raise short term rates during 2019. (Sources: *Bureau of Economic Analysis, International Monetary Fund, and The Federal Reserve*).

Merger and acquisition activity in 2018 (\$3.53 trillion) was slightly greater than 2017 (\$3.50 trillion) and at the third highest level since prior to the 2008 financial crisis, as corporations have been deleveraging and are holding significant amounts of cash and many have focused on acquisitions as part of future growth plans. However, the average size of M&A transactions has increased to \$385 million, while the number of transactions actually decreased for the first time since 2010. Private equity firms engaged in over 5,000 transactions valued in excess of \$800 billion, as they began to deploy the substantial assets under management acquired during the past few years. However, the abundance of capital has also put upward pressure on asset prices and constrained expected investment yields. (Source: *PWC, Forbes, Prequin*).

During 2018, our net asset value increased from \$3.18 per share as of December 31, 2017 to \$3.22 per share as of December 31, 2018. As of December 31, 2018, our common stock was trading at a 39.1% discount to our net asset value as compared to 24.5% as of December 31, 2017.

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

Table of Contents

**Liquidity and Capital Resources**

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

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

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

The Fund reserves the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Fund as long-term capital gains and stockholders will be able to claim their proportionate share of the federal income taxes paid on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their Fund shares by the difference between their undistributed capital gains and their tax credit.

We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We have followed valuation techniques in a consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months. If we effect a Consolidation of the Fund as described under “*Significant Developments – Plan of Reorganization and Share Exchange with MVC Capital*” and “– *Authorization to Withdraw BDC Election*” above, we may utilize some or a substantial portion of our current liquidity in connection with a contemplated transaction as payment of the purchase price and to pay associated legal, due diligence, accounting, and other fees. Further, we may borrow funds from financial institutions or other providers of debt capital to provide and pay for a part of the consideration and expenses necessary to effect a Consolidation.

***Year Ended December 31, 2018***

As of December 31, 2018, we had total assets of \$70.9 million, of which \$35.0 million were invested in portfolio investments and \$7.4 million were invested in cash and cash equivalents. Among our portfolio investments, \$1.0 million (at fair value) or 2.7% of net asset value were in the form of notes receivable from portfolio companies as of December 31, 2018.

As of December 31, 2018, we also had \$27.3 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$27.0 million was invested in U.S. Treasury bills and \$0.3 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills were sold on January 2, 2019 and we subsequently repaid this margin loan. The margin interest was paid on February 5, 2019.

*Operating Activities.* We used \$12.3 million in cash for operating activities in 2018. In 2018, we made no new investments in portfolio companies. We paid fees to our professional advisers, directors, banks and others of \$4.0 million, while realizing a gain of \$9 thousand from the disposition of temporary cash investments.

*Financing Activities.* We provided \$9.0 million in cash from financing activities for 2018. We did not declare any dividends in 2018.

***Year Ended December 31, 2017***

As of December 31, 2017, we had total assets of \$61.2 million, of which \$31.1 million were invested in portfolio investments and \$10.8 million were invested in cash and cash equivalents. Among our portfolio investments, \$1.0 million (at fair value) or 2.3% of net asset value were in the form of notes receivable from portfolio companies as of December 31, 2017.

Table of Contents

As of December 31, 2017, we also had \$18.2 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$18.0 million was invested in U.S. Treasury bills and \$0.2 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured on January 4, 2018 and we subsequently repaid this margin loan. The margin interest was paid on February 5, 2018.

*Operating Activities.* We provided \$10.8 million in cash for operating activities in 2017. In 2017, we made no new investments in portfolio companies. We paid fees to our professional advisers, directors, banks and others of \$7.0 million, while realizing a loss of \$5 thousand from the disposition of temporary cash investments.

*Financing Activities.* We used \$12.0 million in cash from financing activities for 2017. We did not declare any dividends in 2016.

***Year Ended December 31, 2016***

As of December 31, 2016, we had total assets of \$73.1 million, of which \$29.7 million were invested in portfolio investments and \$12.0 million were invested in cash and cash equivalents. Among our portfolio investments, \$3.0 million (at fair value) or 7.0% of net asset value were in the form of notes receivable from portfolio companies as of December 31, 2016.

As of December 31, 2016, we also had \$30.3 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$30.0 million was invested in U.S. Treasury bills and \$0.3 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills were sold on January 3, 2017 and we subsequently repaid this margin loan. The margin interest was paid on February 3, 2017.

*Operating Activities.* We used \$20.1 million in cash for operating activities in 2016. In 2016, we made new investments of \$2.0 million in portfolio companies. We paid fees to our professional advisers, directors, banks and others of \$3.2 million, while realizing a loss of \$13 thousand from the disposition of temporary cash investments.

*Financing Activities.* We provided \$15.0 million in cash from financing activities for 2016. We did not declare any dividends in 2016.

## **Results of Operations**

### **Investment Income and Expense**

#### *Year Ended December 31, 2018 as compared to Year Ended December 31, 2017*

Total income from portfolio securities decreased \$0.1 million in 2018 due to the decrease in interest-bearing investments.

Compensation expense decreased to \$1.7 million in 2018 from \$2.2 million in 2017, primarily attributable to awards granted in 2017 pursuant to our 2016 Equity Incentive Plan.

General and administrative expenses were comparable from 2017 to 2018, and were \$0.4 million and \$0.4 million respectively.

As a result of the factors described above, net investment loss after expenses was \$3.6 million for 2018 as compared to a net investment loss of \$4.0 million in 2017.

#### *Year Ended December 31, 2017 as compared to Year Ended December 31, 2016*

Total income from portfolio securities decreased \$0.2 million in 2017 due to the decrease in interest-bearing investments.

Compensation expense increased to \$2.2 million from \$1.1 million in 2017, primarily attributable to awards granted pursuant to our 2016 Equity Incentive Plan.





Table of Contents

General and administrative expenses were comparable from 2016 to 2017, and were \$0.4 million and \$0.4 million respectively.

As a result of the factors described above, net investment loss after expenses was \$4.0 million for 2017 as compared to a net investment loss of \$2.5 million in 2016.

**Summary of Portfolio Investment Activity**

***Year Ended December 31, 2018***

During 2018, we received 30,930 shares of MVC in the form of stock dividend payments.

The following table includes summarizes investment activity during the year ended December 31, 2018 (in thousands):

	Investment Activity				Dividend	Total
	New Investments		Existing Investments			
Portfolio Company	Cash	Non-Cash	Follow-On	Dividend		
MVC Capital, Inc.	\$ —	\$ —	\$ —	\$ 303	\$ 303	\$ 303
	\$ —	\$ —	\$ —	\$ 303	\$ 303	\$ 303

***Year Ended December 31, 2017***

During the year ended December 31, 2017, we received full payment of our senior secured promissory note (“Note”) issued by Biogenic Reagents, LLC (“Biogenic”), in the amount of \$2.4 million in cash, consisting of the original principal amount of the Note, together with approximately \$0.4 million in interest as accrued thereon.

During the year ended December 31, 2017, we had investment activity of \$0.3 million in three portfolio companies. We received \$0.04 million in semi-annual interest and \$13 thousand in PIK’d interest in respect of our Biogenic Note

described above. During 2017, we received 20,253 shares of MVC in the form of stock dividend payments. We received \$12 thousand in PIK'd interest in respect to our loan to 5<sup>TH</sup> Element Tracking, LLC ("5<sup>TH</sup> Element").

The following table includes summarizes investment activity during the year ended December 31, 2017 (in thousands):

Portfolio Company	Investment Activity				
	New Investments		Existing Investments		Total
	Cash	Non-Cash	Follow-On	PIK/Dividend	
5 <sup>TH</sup> Element Tracking, LLC	\$—	\$—	\$—	\$12	\$12
MVC Capital, Inc.	—	—	—	265	265
	\$—	\$—	\$—	\$277	\$277

***Year Ended December 31, 2016***

During the year ended December 31, 2016, we had investment activity of \$2.4 million in three portfolio companies. We invested \$2.0 million in a senior secured Note issued by Biogenic, bearing cash and PIK interest at the combined rate of 16% per annum. During 2016, we received \$0.04 million in semi-annual interest and \$13 thousand in PIK'd interest in respect of this Note. During 2016, we received 22,863 shares of MVC in the form of stock dividend payments. We received \$50 thousand in PIK'd interest in respect to our loan to 5<sup>TH</sup> Element.

Table of Contents

The following table summarizes significant investment activity during the year ended December 31, 2016 (in thousands):

<b>Portfolio Company</b>	<b>Investment Activity</b>				<b>Total</b>
	<b>New Investments</b>		<b>Existing Investments</b>		
	<b>Cash</b>	<b>Non-Cash</b>	<b>Follow-On</b>	<b>PIK/Dividend</b>	
Biogenic Reagents, LLC	\$2,000	\$—	\$—	\$13	\$2,013
MVC Capital, Inc.	—	—	—	313	313
5 <sup>TH</sup> Element Tracking, LLC	—	—	—	50	50
	\$2,000	\$—	\$—	\$376	\$2,376

**Realized Gains and Losses on Sales of Portfolio Securities***Year Ended December 31, 2018*

During 2018, we realized capital gains of \$9 thousand as a result of disposition of temporary cash investments.

*Year Ended December 31, 2017*

During 2017, we realized capital losses of \$5 thousand as a result of disposition of temporary cash investments.

*Year Ended December 31, 2016*

During 2016, we realized capital losses of \$13 thousand as a result of disposition of temporary cash investments.

**Changes in Unrealized Appreciation/Depreciation of Portfolio Securities***Year Ended December 31, 2018*

During 2018, we recorded an increase of \$3.6 million in net unrealized appreciation, from \$13.5 million at December 31, 2017 to \$17.1 million at December 31, 2018, in our portfolio securities. Such increase resulted primarily from the following changes:

(i) Decrease in the fair value of our shareholding in MVC of \$1.2 million due to a decrease in the MVC share price during 2018 which was partially offset by the receipt of dividend payments in the form of additional shares of MVC;

(ii) Increase in fair value of our shareholding in PalletOne, Inc. (“PalletOne”) of \$3.8 million due to an overall improvement in comparable industry sectors, as well as continued revenue increases and promising acquisition and growth prospects; and

(iii) Increase in the fair value of our holdings in Equus Energy of \$1.0 million, principally due to an increase in comparable transactions for mineral leases and a continued increase in short- and long-term prices for crude oil and natural gas.

***Year Ended December 31, 2017***

During 2017, we recorded an increase of \$3.2 million in net unrealized appreciation, from \$10.3 million at December 31, 2016 to \$13.5 million at December 31, 2016, in our portfolio securities. Such increase resulted primarily from the following changes:

(i) Increase in the fair value of our shareholding in MVC of \$1.0 million due to an increase in the MVC share price during 2017 and the receipt of dividend payments in the form of additional shares of MVC;

(ii) Increase in fair value of our shareholding in PalletOne of \$0.5 million due to an overall improvement in comparable industry sectors, as well as continued revenue increases and promising acquisition and growth prospects;

and

(iii) Increase in the fair value of our holdings in Equus Energy of \$1.7 million, principally due to an increase in comparable transactions for mineral leases and a continued increase in short- and long-term prices for crude oil and natural gas.

Table of Contents

***Year Ended December 31, 2016***

During 2016, we recorded an increase of \$7.9 million in net unrealized appreciation, from \$2.4 million at December 31, 2015 to \$10.3 million at December 31, 2016, in our portfolio securities. Such increase resulted primarily from the following changes:

- (i) Increase in the fair value of our shareholding in MVC of \$0.5 million due to an increase in the MVC share price during 2016 and the receipt of dividend payments in the form of additional shares of MVC;
- (ii) Increase in fair value of our shareholding in PalletOne of \$6.6 million due to continued strong revenue and earnings growth, as well as an overall improvement in comparable industry sectors; and

- (iii) Increase in the fair value of our holdings in Equus Energy of \$0.8 million, principally due to an increase in comparable transactions for mineral leases, a combination of increased production, and a continued increase in short- and long-term prices for crude oil and natural gas.

**Portfolio Securities**

As of December 31, 2018, we had active investments in the following entities or portfolio companies:

***5<sup>TH</sup> Element Tracking, LLC***

5<sup>TH</sup> Element is a technology holding company based outside of Boston, Massachusetts. On January 6, 2015, in connection with the sale of the Fund's interest in Spectrum to 5<sup>TH</sup> Element, we received a subordinated note in the original principal amount of \$0.9 million maturing May 12, 2018 and bearing interest at the rate of 14% per annum. As of December 31, 2018 and 2017, we valued the promissory note at its original investment amount of \$0.9 million plus certain PIK interest, as accrued.

***Equus Energy, LLC***

We formed Equus Energy, as a wholly-owned subsidiary of the Fund, to make investments in companies in the energy sector, with particular emphasis on income-producing oil& gas properties. In December 2011, we contributed \$250,000 to the capital of Equus Energy. On December 27, 2012, we invested an additional \$6.8 million in Equus Energy for the purpose of additional working capital and to fund the purchase of \$6.6 million in working interests presently represented by 142 producing and non-producing oil and gas wells, including associated development rights of approximately 21,520 acres situated on 11 separate properties in Texas and Oklahoma. The working interests range from a *de minimus* amount to 50% of the leasehold production of these wells. The wells are operated by a number of experienced operators such as Apache, Chesapeake, and Chevron, which has operating responsibility for leasehold interests in the Conger Field, representing approximately one-third of the producing well interests. The assets were purchased from Warren American Oil Company, LLC, a Tulsa-based oil and gas firm. During the third and fourth quarters of 2018, Equus Energy sold two separate working interests it held in the Permian Basin in west Texas for an aggregate selling price of \$800,000. Principally due to these transactions and increased acreage values in the region, particularly in respect of Equus Energy's other holdings in the Permian Basin, the fair value of this holding increased to \$9.0 million at December 31, 2018 from \$8.0 million at December 31, 2017.

### ***Equus Media Development Company, LLC***

Equus Media Development Company, LLC ("EMDC") is a company engaged in the acquisition and development of creative properties with the purpose of developing the properties for release in various entertainment mediums. We formed EMDC in 2007 as a wholly-owned subsidiary of the Fund in connection with a management and development agreement with Kopelson Entertainment.

The concept of the business of EMDC is to partner with creators, developers and producers of creative work, such as scripts, short stories or books, by providing capital necessary to enhance the creative development and package the assets to companies, such as major and independent studios, to produce and release. In December 2011, our agreement with Kopelson Entertainment expired and EMDC distributed \$1 million to the Fund. As of December 31, 2018, we valued EMDC at \$0.2 million, which was unchanged from December 31, 2017.

Table of Contents

***MVC Capital, Inc.***

MVC is a BDC traded on the NYSE that provides long-term debt and equity investment capital to fund growth, acquisitions and recapitalizations of companies in a variety of industries. On May 14, 2014, as part of our Plan of Reorganization, we sold to MVC 2,112,000 newly-issued shares of the Fund's common stock in exchange for 395,839 shares of MVC (see "*Significant Events—Plan of Reorganization*" above). During 2018 and 2017, we received 30,930 and 20,253 additional shares in the form of dividend payments. As of December 31, 2018, we valued our 527,138 MVC shares at \$4.3 million, a decrease from \$5.2 million at December 31, 2017. The value of our MVC shares was based on MVC's closing trading price on the NYSE as of such dates.

***PalletOne, Inc.***

PalletOne is considered one of the largest wooden pallet manufacturer in the United States, operating 19 wood pallet manufacturing facilities and 3 wood treating facilities across 11 states. PalletOne has a diverse customer base and competes with numerous other manufacturers on a regional basis and now is a major regional supplier of treated wood. Its largest customers are agricultural and construction related companies including growers, grocery stores, and housing construction companies, and home-improvement chains. We believe PalletOne's numerous locations allow for an advantage in pursuing large corporate accounts, as sales of pallets and pressure-treated wood are typically regionalized to specific locations. The pallet manufacturing industry is mature and is experiencing continuing slow growth as the number of participants shrinks due to consolidation and underutilized plants, which have been eliminated. However, demand continues to increase for pressure-treated lumber for residential fencing and decking which has been the principal contributor to the increases in PalletOne's revenue. We initially invested in PalletOne in October 2001. Our investment in PalletOne presently consists of 350,000 shares of common stock, which represents a fully-diluted equity interest of 18.7%. Due to continued improved operating performance, we valued our interest in PalletOne as of December 31, 2018 as of \$20.5 million, an increase from \$16.7 million from December 31, 2017.

**Off Balance Sheet Arrangements**

We had an operating lease for office space that expired in September 2014. Our current office space lease as of December 31, 2018 is month-to-month. Rent expense, inclusive of common area maintenance costs, was \$111,000 for the year ended December 31, 2018.

**Contractual Obligations**

As of December 31, 2018, we had no outstanding commitments to our portfolio company investments.

## **Dividends**

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

## **Subsequent Events**

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

On January 2, 2019, we sold our holding in \$27.0 million in U. S. Treasury Bills and we repaid our year-end margin loan.

## **Item 7A. *Quantitative and Qualitative Disclosures 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, we may invest in companies outside the United States, including in Europe and Asia, which would give rise to exposure to foreign currency value fluctuations. We do not use derivative financial instruments to mitigate any of these risks. The return on investments is generally not affected by foreign currency fluctuations.

Our investments in portfolio securities consist of some fixed-rate debt securities. Since the debt securities are generally priced at a fixed rate, changes in interest rates do not directly affect interest income. In addition, changes in market interest rates are not typically a significant factor in the determination of fair value of these debt securities, since the securities are generally held to maturity. We determine their fair values based on the terms of the relevant debt security and the financial condition of the issuer.



Table of Contents

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 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called “Shipping products and services” includes one portfolio company and was 47.1% of our net asset value, 28.9% of our total assets and 58.5% of our investments in portfolio company securities (at fair value) as of December 31, 2018. The value of one segment called “Energy” includes one portfolio company and was 20.7% of our net asset value, 12.7% of our total assets and 25.7% of our investments in portfolio company securities (at fair value) as of December 31, 2018. 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.

Table of Contents

**Item 8. Financial Statements and Supplementary Data**

**Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors

Equus Total Return, Inc.

Houston, Texas

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Equus Total Return, Inc. (the “Fund”), including the schedule of investments, as of December 31, 2018 and 2017, the related statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2018 and the selected per share data and ratios for each of the five years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Table of Contents in Item 15(a)(1) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, and the selected per share data and ratios for each of the five years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of

internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Fund's auditor since 2014.  
Houston, Texas  
March 29, 2019

Table of Contents**EQUUS TOTAL RETURN, INC.****BALANCE SHEETS**

	December 31, 2018	December 31, 2017
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$10,050)	\$9,210	\$8,212
Affiliate investments (cost at \$350)	20,500	16,686
Non-affiliate investments - related party (cost at \$6,579 and \$6,276, respectively)	4,328	5,240
Non-affiliate investments (cost at \$977)	977	977
Total investments in portfolio securities at fair value	35,015	31,115
Temporary cash investments	26,981	17,998
Cash and cash equivalents	7,425	10,795
Restricted cash	270	180
Accounts receivable from affiliates	561	586
Accrued interest and dividend receivable	568	420
Other assets	121	110
Total assets	70,941	61,204
Liabilities and net assets		
Accounts payable	196	122
Accounts payable to related parties	269	77
Borrowing under margin account	26,981	17,998
Total liabilities	27,446	18,197
Commitments and contingencies (see Note 7)		
Net assets	\$43,495	\$43,007
Net assets consist of:		
Common stock, par value	\$13	\$13
Capital in excess of par value	55,741	55,304
Undistributed net investment losses	(29,327)	(25,772)
Undistributed net capital gains	9	—
Unrealized appreciation of portfolio securities, net	19,310	14,498
Unrealized depreciation of portfolio securities, net - related party	(2,251)	(1,036)
Total net assets	\$43,495	\$43,007
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	13,518	13,518
Shares of preferred stock issued and outstanding, \$.001 par value, 5,000 shares authorized	—	—
Net asset value per share	\$3.22	\$3.18

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

Table of Contents**EQUUS TOTAL RETURN, INC.****STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)	Year Ended December 31,		
	2018	2017	2016
Investment income:			
Interest and dividend income:			
Non-affiliate investments - related party	\$381	\$265	\$183
Non-affiliate investments	69	285	555
Total interest and dividend income	450	550	738
Interest from temporary cash investments	30	10	10
Total investment income	480	560	748
Expenses:			
Transaction costs	—	2,501	—
Compensation expense	1,731	2,231	1,145
Professional fees	1,254	1,294	1,172
Director fees and expenses	441	531	383
General and administrative expenses	455	397	355
Mailing, printing and other expenses	129	89	114
Taxes	21	20	22
Interest expense	4	11	8
Total expenses before merger termination fee	4,035	7,074	3,199
Merger termination fee (See Note 6)	—	(2,500)	—
Total expenses, net of merger termination fee	4,035	4,574	3,199
Net investment loss	(3,555)	(4,014)	(2,451)
Net realized gain (loss):			
Temporary cash investments	9	(5)	(13)
Net realized gain (loss)	9	(5)	(13)
Net unrealized appreciation (depreciation) of portfolio securities:			
End of period	19,310	14,498	12,262
Beginning of period	14,498	12,262	4,915
Net change in net unrealized appreciation of portfolio securities	4,812	2,236	7,347
Net unrealized depreciation of portfolio securities - related party:			
End of period	(2,251)	(1,036)	(1,990)
Beginning of period	(1,036)	(1,990)	(2,539)
Net change in net unrealized depreciation of portfolio securities - related party	(1,215)	954	549
Net increase (decrease) in net assets resulting from operations	\$51	\$(829)	\$5,432
Net increase (decrease) in net assets resulting from operations per share:			

Edgar Filing: EQUUS TOTAL RETURN, INC. - Form 10-K

Basic and diluted	\$0.00	\$(0.06 )	\$0.43
Weighted average shares outstanding:			
Basic and diluted	13,518	13,345	12,674

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

Table of Contents**EQUUS TOTAL RETURN, INC.****STATEMENTS OF CHANGES IN NET ASSETS**

(in thousands)	Common Stock							
	Number of Shares	Par Value	Capital in Excess of Par Value	Undistributed Net Investment Losses	Undistributed Net Capital Gains	Unrealized Appreciation of Portfolio Securities, net	Unrealized Depreciation of Portfolio Securities - Related Party	Total Net Assets
Balances at December 31, 2015	12,674	\$ 13	\$ 54,226	\$ (19,307 )	\$ —	\$ 4,915	\$ (2,539 )	\$ 37,308
Net (decrease) increase in net assets resulting from operations	—	—	(13 )	(2,451 )	—	7,347	549	5,432
Balances at December 31, 2016	12,674	13	54,213	(21,758 )	—	12,262	(1,990 )	42,740
Share-based incentive compensation	844	—	1,096	—	—	—	—	1,096
Net (decrease) increase in net assets resulting from operations	—	—	(5 )	(4,014 )	—	2,236	954	(829 )
Balances at December 31, 2017	13,518	13	55,304	(25,772 )	—	14,498	(1,036 )	43,007
Share-based incentive compensation	—	—	437	—	—	—	—	437
Net (decrease) increase in net assets resulting from operations	—	—	—	(3,555 )	9	4,812	(1,215 )	51
Balances at December 31, 2018	13,518	\$ 13	\$ 55,741	\$ (29,327 )	\$ 9	\$ 19,310	\$ (2,251 )	\$ 43,495

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





Table of Contents**EQUUS TOTAL RETURN, INC.****STATEMENTS OF CASH FLOWS**

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Reconciliation of increase (decrease) in net assets resulting from operations to net cash			
(used in) provided by operating activities:			
Net increase (decrease) in net assets resulting from operations	\$51	\$(829 )	\$5,432
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash (used in) provided by operating activities:			
Net realized (gain) loss	(9 )	5	13
Net change in unrealized appreciation of portfolio securities	(4,812 )	(2,236 )	(7,347 )
Net change in unrealized depreciation of portfolio securities - related party	1,215	(954 )	(549 )
Share-based incentive compensation	437	1,096	—
Changes in operating assets and liabilities:			
Purchase of portfolio securities	—	—	(2,000 )
Net proceeds from dispositions of portfolio securities	—	2,013	—
(Proceeds from) purchases of temporary cash investments, net	(8,974 )	11,991	(15,007 )
Decrease in accounts receivable from affiliates	25	25	3
Increase in accrued interest and dividend receivable	(451 )	(155 )	(660 )
(Decrease) increase in other assets	(11 )	(33 )	6
Increase (decrease) in accounts payable and accrued liabilities	74	(147 )	233
Increase (decrease) in accounts payable to related parties	192	(66 )	(43 )
Net cash (used in) provided by operating activities	(12,263)	10,710	(19,919 )
Cash flows from financing activities:			
Borrowings under margin account	74,966	105,942	102,977
Repayments under margin account	(65,983)	(117,938)	(87,983 )
Net cash provided by (used in) financing activities	8,983	(11,996 )	14,994
Net decrease in cash and cash equivalents	(3,280 )	(1,286 )	(4,925 )
Cash and cash equivalents and restricted cash at beginning of period	10,975	12,261	17,186
Cash and cash equivalents and restricted cash at end of period	\$7,695	\$10,975	\$12,261
Non-cash operating and financing activities:			
Accrued interest or dividends exchanged for portfolio securities	\$—	\$12	\$63
Accrued interest or dividends exchanged for portfolio securities - related party	\$303	\$265	\$313
Supplemental disclosure of cash flow information:			
Interest paid	\$3	\$12	\$7
Income taxes paid	\$21	\$28	\$19

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



Table of Contents**EQUUS TOTAL RETURN, INC.****SELECTED PER SHARE DATA AND RATIOS**

	Year ended December 31,				
	2018	2017	2016	2015	2014
Investment income	\$0.04	\$0.04	\$0.04	\$0.03	\$0.08
Expenses	0.31	0.34	0.22	0.22	0.28
Net investment loss	(0.27 )	(0.30 )	(0.19 )	(0.19 )	(0.20 )
Net realized gain (loss)	—	—	—	(0.20 )	0.06
Net change in unrealized appreciation (depreciation) of portfolio securities	0.36	0.17	0.58	0.47	0.03
Net change in unrealized depreciation of portfolio securities - related party	(0.09 )	0.07	0.04	—	—
Net increase (decrease) in net assets	—	(0.06 )	0.43	0.08	(0.11 )
Capital transactions:					
Shares issued for portfolio securities	0.04	0.08	—	—	0.37
Dilutive effect of shares issued	—	(0.21 )	—	—	(0.54 )
Decrease in net assets resulting from capital transactions	0.04	(0.13 )	—	—	(0.17 )
Net increase (decrease) in net assets	0.04	(0.19 )	0.43	0.08	(0.28 )
Net assets at beginning of period	3.18	3.37	2.94	2.86	3.14
Net assets at end of period, basic and diluted	\$3.22	\$3.18	\$3.37	\$2.94	\$2.86
Weighted average number of shares outstanding during period,					
in thousands	13,518	13,345	12,674	12,674	11,904
Market price per share:					
Beginning of period	\$2.40	\$2.01	\$1.79	\$2.10	\$1.99
End of period	\$1.96	\$2.40	\$2.01	\$1.79	\$2.10
Selected information and ratios:					
Ratio of expenses to average net assets	9.33 %	6.52 %	7.99 %	7.61 %	9.75 %
Ratio of net investment loss to average net assets	(8.22 %)	(5.48 %)	(6.12 %)	(6.40 %)	(6.97 %)
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	0.12 %	2.58 %	13.57 %	3.01 %	(3.94 %)
Total return on market price <sup>(1)</sup>	(18.33 %)	19.40 %	12.29 %	(14.76 %)	5.53 %

<sup>(1)</sup> Total return = [(ending market price per share + year-to-date dividends paid - beginning market 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****DECEMBER 31, 2018***(in thousands, except share data)*

Name and location of Portfolio Company Control	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value <sup>(1)</sup>
Investments: Majority-owned (3): Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)		\$ 7,050	\$ 9,000
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	210
Total Control Investments: Majority-owned (represents 14.9% of total investments at fair value)					\$ 10,050	\$ 9,210
Affiliate Investments <sup>(4)</sup> :						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.7%)		\$ 350	\$ 20,500
Total Affiliate Investments (represents 33.1% of total investments at fair value)					\$ 350	\$ 20,500
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	May 2014	527,138 shares of common stock (1.7%)		\$ 6,579	\$ 4,328
Total Non-Affiliate Investments - Related Party (represents 7.0% of total investments at fair value)					\$ 6,579	\$ 4,328
Non-Affiliate Investments (less than 5% owned):						
5 <sup>TH</sup> Element Tracking, LLC Boston, MA	Business products and services	January 2015	14% promissory note due 5/18 <sup>(2)</sup>	\$ 977	\$ 977	\$ 977
Total Non-Affiliate Investments (represents 1.5% of total investments at fair value)					\$ 977	\$ 977
Total Investment in Portfolio Securities					\$ 17,956	\$ 35,015
Temporary Cash Investments						
U.S. Treasury Bill	Government	December 2018	UST 0% 1/19	26,981	\$ 26,981	\$ 26,981
Total Temporary Cash Investments (represents 43.5% of total investments at fair value)					\$ 26,981	\$ 26,981

Total Investments \$ 44,937 \$ 61,996

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

(2) Non-income-producing.

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

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

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS – (Continued)****DECEMBER 31, 2018***(in thousands, except share data)*

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

As a BDC, we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of December 31, 2018, we had invested 87.5% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2018, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 84.6% of the total value of the investments in portfolio securities as of December 31, 2018.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called “Shipping products and services” includes one portfolio company and was 47.1% of our net asset value, 28.9% of our total assets and 58.5% of our investments in portfolio company securities (at fair value) as of December 31, 2018. The value of one segment called “Energy” includes one portfolio company and was 20.7% of our net asset value, 12.7% of our total assets and 25.7% of our investments in portfolio company securities (at fair value) as of December 31, 2018. 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.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2018 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as
--------------------	------	------------	---------------



Edgar Filing: EQUUS TOTAL RETURN, INC. - Form 10-K

			Percentage of	
				<u>Net Assets</u>
Common stock	\$6,929	\$24,828	57.1	%
Limited liability company investments	10,050	9,210	21.2	%
Secured and subordinated debt	977	977	2.2	%
Total	\$17,956	\$35,015	80.5	%

The following is a summary by industry of the Fund's investments in portfolio securities as of December 31, 2018 (in thousands):

Industry	Fair Value	Percentage of	
			<u>Net Assets</u>
Shipping products and services	\$20,500	47.1	%
Energy	9,000	20.7	%
Financial services	4,328	9.9	%
Business products and services	977	2.2	%
Media	210	0.6	%
Total	\$35,015	80.5	%

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS****DECEMBER 31, 2017***(in thousands, except share data)*

<b>Name and Location of Portfolio Company Control</b>	<b>Industry</b>	<b>Date of Initial Investment</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost of Investment</b>	<b>Fair Value<sup>(1)</sup></b>
<b>Investments: Majority-owned<sup>(3)</sup>:</b>						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)	\$ 7,050	\$	8,000
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)	3,000		21
<b>Total Control Investments: Majority-owned (represents 16.7% of total investments at fair value)</b>				<b>\$ 10,050</b>	<b>\$</b>	<b>8,212</b>
<b>Affiliate Investments<sup>(4)</sup>:</b>						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.7%)	\$ 350	\$	16,686
<b>Total Affiliate Investments (represents 34.0% of total investments at fair value)</b>				<b>\$ 350</b>	<b>\$</b>	<b>16,686</b>
<b>Non-Affiliate Investments - Related Party (less than 5% owned):</b>						
MVC Capital, Inc. Purchase, NY	Financial services	May 2014	496,208 shares of common stock (1.7%)	\$ 6,276	\$	5,240
<b>Total Non-Affiliate Investments - Related Party (represents 10.7% of total investments at fair value)</b>				<b>\$ 6,276</b>	<b>\$</b>	<b>5,240</b>
<b>Non-Affiliate Investments (less than 5% owned):</b>						
5 <sup>TH</sup> Element Tracking, LLC Boston, MA	Business products and services	January 2015	14% promissory note due 3/18 <sup>(2)</sup>	\$ 977	\$	977
<b>Total Non-Affiliate Investments (represents 2.0% of total investments at fair value)</b>				<b>\$ 977</b>	<b>\$</b>	<b>977</b>
<b>Total Investment in Portfolio Securities</b>				<b>\$ 17,653</b>	<b>\$</b>	<b>31,115</b>
<b>Temporary Cash Investments</b>						
U.S. Treasury Bill	Government	December 2017	UST 0% 1/18	\$ 17,998	\$ 17,998	\$ 17,998
				<b>\$ 17,998</b>	<b>\$</b>	<b>17,998</b>

**Total Temporary Cash Investments (represents 36.6% of total investments at fair value)**

**Total Investments** **\$ 35,651**    **\$ 49,113**

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

(2) Income-producing.

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

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

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS – (Continued)****DECEMBER 31, 2017***(in thousands, except share data)*

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

As a BDC, we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of December 31, 2017, we had invested 83.2% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2017, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 80.0% of the total value of the investments in portfolio securities as of December 31, 2017.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called “Shipping products and services” includes one portfolio company and was 38.9% of our net asset value, 27.3% of our total assets and 53.6% of our investments in portfolio company securities (at fair value) as of December 31, 2017. The value of one segment called “Energy” includes one portfolio company and was 18.6% of our net asset value, 13.1% of our total assets and 25.7% of our investments in portfolio company securities (at fair value) as of December 31, 2017. 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.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2017 (in thousands):

<b>Type of Securities</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Fair Value as</b>
---------------------------	-------------	-----------------------	--------------------------

			<b>Percentage of Net Assets</b>	
Common stock	\$6,626	\$21,926	51.0	%
Limited liability company investments	10,050	8,212	19.1	%
Secured and subordinated debt	977	977	2.3	%
Total	\$17,653	\$31,115	72.4	%

The following is a summary by industry of the Fund's investments in portfolio securities as of December 31, 2017 (in thousands):

<b>Industry</b>	<b>Fair Value</b>	<b>Fair Value as Percentage of Net Assets</b>	
		<b>Fair Value</b>	<b>Percentage of Net Assets</b>
Shipping products and services	\$16,686	38.9	%
Energy	8,000	18.6	%
Financial services	5,240	12.1	%
Business products and services	977	2.3	%
Media	212	0.5	%
Total	\$31,115	72.4	%

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

Table of Contents

**EQUUS TOTAL RETURN, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**(1) ORGANIZATION AND BUSINESS PURPOSE**

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 NYSE under the symbol ‘EQS’. On August 11, 2006, our shareholders approved the change of the Fund’s investment strategy to a total return investment objective. This strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

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

We elected to be treated as a BDC under the 1940 Act, although our shareholders have authorized us to withdraw this election during 2019 and have done so previously in our efforts to achieve a transformational Consolidation (see “*Significant Developments – Authorization to Withdraw BDC Election*” above). We currently qualify as a regulated investment company RIC for federal income tax purposes and, therefore, are not required to pay corporate income taxes on any income or gains that we distribute to our stockholders. We have certain wholly owned taxable subsidiaries (“Taxable Subsidiaries”) each of which holds one or more portfolio investments listed on our Schedules of Investments. The purpose of these Taxable Subsidiaries is to permit us to hold certain income-producing investments or portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross revenue for income tax purposes must consist of

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

## **(2) LIQUIDITY AND FINANCING ARRANGEMENTS**

As of December 31, 2018, we had cash and cash equivalents of \$7.4 million. We had \$35.0 million of our net assets of \$43.5 million invested in portfolio securities. We also had \$27.3 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$27.0 million was invested in U.S. Treasury bills and \$0.3 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills were sold on January 2, 2019 and we subsequently repaid this margin loan. The margin interest was paid on February 5, 2019.

As of December 31, 2017, we had cash and cash equivalents of \$10.8 million. We had \$31.1 million of our net assets of \$43.0 million invested in portfolio securities. We also had \$18.2 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$18.0 million was invested in U.S. Treasury bills and \$0.2 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured January 4, 2018 and we subsequently repaid this margin loan. The margin interest was paid on February 5, 2018.

Table of Contents

During 2018 and 2017, 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. If we continue to be a BDC, failure to continue to qualify as a RIC could be material to us and our stockholders.

**(3) SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Valuation of Investments**—For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board has approved a multi-step valuation process each quarter, as described below:

1. Each portfolio company or investment is reviewed by our investment professionals;

With respect to investments with a fair value exceeding \$2.5 million that have been held for more than one year,

2. we engage independent valuation firms to assist our investment professionals. These independent valuation firms conduct independent valuations and make their own independent assessments;

3. Our Management produces a report that summarized each of our portfolio investments and recommends a fair value of each such investment as of the date of the report;

The Audit Committee of our Board reviews and discusses the preliminary valuation of our portfolio investments as recommended by Management in their report and any reports or recommendations of the independent valuation

4. firms, and then approves and recommends the fair values of our investments so determined to our Board for final approval; and



5. The Board discusses valuations and determines the fair value of each portfolio investment in good faith based on the input of our Management, the respective independent valuation firm, as applicable, and the Audit Committee.

During the first twelve months after an investment is made, we rely on 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).

Investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

Table of Contents

In applying these methodologies, additional factors that we consider in fair value pricing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment. However, in addition to the previously described analysis involving allocation of value to the debt instrument, we perform a yield analysis assuming a hypothetical current sale of the security to determine if a debt security has been impaired. The yield analysis considers changes in interest rates and changes in leverage levels of the portfolio company as compared to the market interest rates and leverage levels. Assuming the credit quality of the portfolio company remains stable, the Fund will use the value determined by the yield analysis as the fair value for that security if less than the cost of the investment.

We 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.

**Fair Value Measurement**—Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

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

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

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

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

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

Table of Contents

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

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

We assess the levels of the investments at each measurement date, and transfers between levels are recognized on the subsequent measurement date closest in time to the actual date of the event or change in circumstances that caused the transfer. There were no transfers among Level 1, 2 and 3 for the years ended December 31, 2018 and 2017.

As of December 31, 2018, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

(in thousands)	Total	Fair Value Measurements as of December 31, 2018		
		Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Edgar Filing: EQUUS TOTAL RETURN, INC. - Form 10-K

Assets

(Level 1)

Assets

Investments:

Control investments	\$9,210	\$—	\$—	\$9,210
Affiliate investments	20,500	—	—	20,500
Non-affiliate investments - related party	4,328	4,328	—	—
Non-affiliate investments	977	—	—	977
Total investments	35,015	4,328	—	30,687
Temporary cash investments	26,981	26,981	—	—
Total investments and temporary cash investments	\$61,996	\$31,309	\$—	\$30,687

Table of Contents

As of December 31, 2017, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

(in thousands)	Total	Fair Value Measurements as of December 31, 2017		
		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	\$8,212	\$—	\$—	\$8,212
Affiliate investments	16,686	—	—	16,686
Non-affiliate investments - related party	5,240	5,240	—	—
Non-affiliate investments	977	—	—	977
Total investments	31,115	5,240	—	25,875
Temporary cash investments	17,998	17,998	—	—
Total investments and temporary cash investments	\$49,113	\$23,238	\$—	\$25,875

The following table provides a reconciliation of fair value changes during 2018 for all investments for which we determine fair value using significant unobservable (Level 3) inputs:

(in thousands)	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2017	\$8,212	\$ 16,686	\$ 977	\$25,875
Change in unrealized appreciation	998	3,814	—	4,812
Fair value as of December 31, 2018	\$9,210	\$ 20,500	\$ 977	\$30,687

The following table provides a reconciliation of fair value changes during 2017 for all investments for which we determine fair value using significant unobservable (Level 3) inputs:

<i>(in thousands)</i>	<b>Fair value measurements using significant unobservable inputs (Level 3)</b>			<b>Total</b>
	<b>Control Investments</b>	<b>Affiliate Investments</b>	<b>Non-affiliate Investments</b>	
Fair value as of December 31, 2016	\$6,462	\$ 16,200	\$ 2,978	\$25,640
Change in unrealized appreciation	1,749	486	—	2,235
Purchases of portfolio securities	—	—	12	12
Proceeds from sales/dispositions	—	—	(2,013 )	(2,013)
Fair value as of December 31, 2017	\$8,212	\$ 16,686	\$ 977	\$25,875

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

Table of Contents

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in discount rates, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in isolation, may change the fair value of certain of our investments. Generally, an increase/(decrease) in market yields, discount rates, or an increase/(decrease) in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a corresponding increase/(decrease), respectively, in the fair value of certain of our investments.

The following table summarizes the significant non-observable inputs in the fair value measurements of our level 3 investments by category of investment and valuation technique as of December 31, 2018:

(in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range	
				Minimum	Maximum
Secured and subordinated debt	\$977	Yield analysis	Discount for lack of marketability EBITDA	0 %	0 %
Common stock	20,500	Income/Market approach	Multiple/Discount for lack of marketability/Control premium	10 %	32.5 %
Limited liability company investments	9,210	Asset approach Discounted cash flow; Guideline transaction method	Recovery rate Reserve adjustment factors	75 %	100 %
	\$30,687				

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to \$30.7 million and \$25.9 million as of December 31, 2018 and 2017, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities.

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 report those amounts to Lipper Analytical Services, Inc. Our net asset value appears in various publications,



including *Barron's* and *The Wall Street Journal*.

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

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

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are defined as investments in companies in which the Fund 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 we own between 5% and 25% of the voting securities. Under the 1940 Act, “Non-affiliate Investments” are defined as investments that are neither Control Investments nor Affiliate Investments.

**Interest and Dividend 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 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. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We will write off uncollectible interest upon the occurrence of a definitive event such as a sale, bankruptcy, or reorganization of the relevant portfolio interest. Dividend income is recorded as dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution.

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

Table of Contents

**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 and Temporary Cash Investments” used for purposes of complying with RIC requirements from cash equivalents.

**Taxes**—We intend to comply with the requirements of the Code necessary to qualify as a RIC 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 Code as a RIC. See Note 1 for discussion of Taxable Subsidiaries and see Note 2 for further discussion of the Fund’s RIC borrowings.

All corporations incorporated in the State of Delaware are required to file an Annual Report and to pay a franchise tax. As a result, we paid Delaware Franchise tax in the amount of \$0.02 million, for each of the years ended December 31, 2018, 2017 and 2016.

Texas margin tax applies to legal entities conducting business in Texas. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax. As a result, we paid \$3 thousand in state income tax for the year ended December 31, 2018 and 2017. We did not owe state income tax for the year ended December 31, 2016.

**Share-Based Incentive Compensation**—On June 13, 2016, our shareholders approved the adoption of our 2016 Equity Incentive Plan (“Incentive Plan”). On January 10, 2017, the SEC issued an order approving the Incentive Plan and certain awards intended to be made thereunder. The Incentive Plan is intended to promote the interests of the Fund by encouraging officers, employees, and directors of the Fund and its affiliates to acquire or increase their equity interest in the Fund and to provide a means whereby they may develop a proprietary interest in the development and financial success of the Fund, to encourage them to remain with and devote their best efforts to the business of the Fund, thereby advancing the interests of the Fund and its stockholders. The Incentive Plan is also intended to enhance the ability of the Fund and its affiliates to attract and retain the services of individuals who are essential for the growth and profitability of the Fund. The Incentive Plan permits the award of restricted stock as well as common stock purchase options. The maximum number of shares of common stock that are subject to awards granted under the Incentive Plan is 2,434,728 shares. The term of the Incentive Plan will expire on June 13, 2026. On March 17, 2017, we granted awards of restricted stock under the Plan to certain of our directors and executive officers in the aggregate amount of 844,500 shares. The awards are each subject to a vesting requirement over a 3-year period unless the recipient thereof is terminated or removed from their position as a director or executive officer without “cause”, or as a result of constructive termination, as such terms are defined in the respective award agreements entered into by each of the recipients and the Fund. As of December 31, 2018, 280,000 shares remain unvested. We account for share-based compensation using the fair value method, as prescribed by ASC 718, Compensation—Stock Compensation. Accordingly, for restricted stock awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant and amortize the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term. For the year ended December 31, 2018 and

December 31, 2017, we recorded compensation expense of \$0.4 million and \$1.1 million, respectively, in connection with these awards. There was no share-based compensation for the year ended December 2016.

#### **(4) RELATED PARTY TRANSACTIONS AND AGREEMENTS**

*MVC Capital, Inc. – Share Exchange.* On May 14, 2014, we announced that the Fund intended to effect a reorganization pursuant to Section 2(a)(33) of the 1940 Act (“Plan of Reorganization”). As a first step to consummating the Plan or Reorganization, we sold to MVC 2,112,000 newly-issued shares of the Fund’s common stock in exchange for 395,839 shares of MVC (such transaction is hereinafter referred to as the “Share Exchange”). MVC is a BDC traded on the New York Stock Exchange that provides long-term debt and equity investment capital to fund growth, acquisitions and recapitalizations of companies in a variety of industries. The Share Exchange was calculated based on the Fund’s and MVC’s respective net asset value per share. At the time of the Share Exchange, the number of MVC shares received by Equus represented approximately 1.73% of MVC’s total outstanding shares of common stock. During 2018, we received 30,929 additional shares in the form of dividend payments. As of December 31, 2018, we valued our 527,138 MVC shares at \$4.3 million, a decrease from \$5.2 million at December 31, 2017. The value of our MVC shares was based on MVC’s closing trading price on the NYSE as of such dates. Due to the ownership relationship between the Company and MVC, the investment and amounts due to and from MVC have been identified and disclosed as “related party(ies)” in our Consolidated Financial Statements.

Table of Contents

*Agreement to Acquire Portfolio Company of MVC*—On April 24, 2017, we entered into a Stock Purchase Agreement and Plan of Merger (“Merger Agreement”) with ETR Merger Sub, Inc., a newly-formed wholly-owned subsidiary of Equus, certain shareholders of USG&E, and MVC as a selling shareholder of U.S. Gas & Electric, Inc. (“USG&E”) and as representative of the selling USG&E shareholders. On May 30, 2017, USG&E and MVC notified us that they had accepted a proposal from Crius Energy Trust, that was considered by the respective boards of directors of USG&E and MVC to constitute a “Superior Proposal” (as such term is defined in the Merger Agreement) to the terms and conditions of the Merger Agreement, and, accordingly, provided us with a notice of termination pursuant to the Merger Agreement. Further, pursuant to the Merger Agreement, USG&E paid us a termination fee of \$2.5 million.

Except as noted below, as compensation for services to the Fund, each Independent Director receives an annual fee of \$40,000 paid quarterly in arrears, a fee of \$2,000 for each meeting of the Board of Directors or committee thereof attended in person, a fee of \$1,000 for participation in each telephonic meeting of the Board or committee thereof, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. The chair of each of our standing committees (audit, compensation, and nominating and governance) also receives an annual fee of \$50,000, payable quarterly in arrears. We may also pay other one-time or recurring fees to members of our Board of Directors in special circumstances. None of our interested directors receive annual fees for their service on the Board of Directors. We may also pay other one-time or recurring fees to members of our Board of Directors in special circumstances. None of our interested directors receive annual fees for their service on the Board of Directors.

In November 2011, Equus Energy, LLC (“Equus Energy”), a wholly-owned subsidiary of the Fund, entered into a consulting agreement with Global Energy Associates, LLC (“Global Energy”) to provide consulting services for energy related investments. Henry W. Hankinson, Director of the Fund, is a managing partner and co-founder of Global Energy. For each of the years ended December 31, 2017, and 2016, payments to Global Energy totaled \$45,000 and 75,000, respectively. The agreement ended in July 2017.

In respect of services provided to the Fund by members of the Board not in connection with their roles and duties as directors, the Fund pays a rate of \$300 per hour for services rendered. During 2018, 2017 and 2016, we paid Kenneth I. Denos, P.C., a professional corporation owned by Kenneth I. Denos, a director of the Fund, \$0.4 million, \$0.6 million and \$0.4 million, respectively, for services provided to the Fund during these years.

**(5) PLAN OF REORGANIZATION**

*Share Exchange with MVC*—On May 14, 2014, we announced that the Fund intended to effect a Plan of Reorganization. As a first step to consummating the Plan of Reorganization, we executed a Share Exchange with MVC, wherein we sold to MVC 2,112,000 newly-issued shares of our common stock in exchange for 395,839 newly-issued shares of MVC. We also announced that, pursuant to the Plan of Reorganization, our intention was for Equus to pursue a Consolidation with MVC or one of its portfolio companies.

*Authorization to Withdraw BDC Election*—As a consequence of our Plan of Reorganization, on January 21, 2019, holders of a majority of the outstanding common stock of the Fund approved our cessation as a BDC under the 1940 Act and authorized our Board of Directors to cause the Fund’s withdrawal of its election to be classified as a BDC, each effective as of a date designated by the Board and our Chief Executive Officer on or before July 31, 2019. Notwithstanding these authorizations to withdraw our BDC election, we will not submit any such withdrawal unless and until we are reasonably confident that such Consolidation will be completed.

*Agreement to Acquire U.S. Gas & Electric, Inc.*—On April 24, 2017, we entered into the Merger Agreement with ETR Merger Sub, Inc., a newly-formed wholly-owned subsidiary of Equus, certain shareholders of USG&E, and MVC as a selling shareholder of USG&E and as representative of the selling USG&E shareholders. On May 30, 2017, USG&E and MVC notified us that they had accepted a proposal from Crius Energy Trust, that was considered by the respective boards of directors of USG&E and MVC to constitute a “Superior Proposal” (as such term is defined in the Merger Agreement) to the terms and conditions of the Merger Agreement, and, accordingly, provided us with a notice of termination pursuant to the Merger Agreement. Further, pursuant to the Merger Agreement, USG&E paid us a termination fee of \$2.5 million.

*Intention to Continue to Pursue Consolidation*—Notwithstanding the termination of the Merger Agreement with USG&E described above, we intend to pursue a Consolidation and the completion of our Plan of Reorganization with another operating company and withdraw our BDC election as authorized by our stockholders. While we are presently evaluating various opportunities that could enable us to accomplish a Consolidation, we cannot assure you that we will be able to do so within any particular time period or at all. Moreover, we cannot assure you that the terms of any such transaction that would embody a potential Consolidation would be acceptable to us.

Table of Contents

**(6) FEDERAL INCOME TAX MATTERS**

As a RIC, our tax liability is dependent upon whether an election is made to distribute taxable investment income and capital gains above any statutory requirement. As we have incurred net investment losses and have had no realized gains after taking into account our capital loss carryforwards in 2017, 2016 and 2015, no distributions were required or made.

Our year-end for determining capital gains for purposes of Section 4982 of the Code is October 31.

There are no material book to tax differences for net investment income/losses, realized gains or unrealized appreciation/depreciation. As of December 31, 2018, we had approximately \$15.7 million in capital losses that can be carried forward indefinitely. During the year ended December 31, 2018, \$7 thousand of pre-Regulated Investment Company Modification Act capital loss carryforwards expired. Pursuant to Statement of Position 93-2, the expired capital loss has reduced additional-paid-in-capital.

Reclassification of returns of capital had no material book to tax differences for the three years ended December 31, 2018 and therefore has no material book to tax differences impacting accumulated earnings.

We believe that any aggregate exposure for uncertain tax positions should not materially impact our financial statements as of December 31, 2018 or December 31, 2017. An uncertain tax position is measured as the largest amount of tax return benefits that does not have a greater than 50% likelihood of being realized upon ultimate settlement. We have not recorded an adjustment to our financial statements related to any uncertain tax positions. We will continue to evaluate our tax positions and recognize any future impact of uncertain tax positions as a charge to income in the applicable period in accordance with promulgated standards.

The Fund's accounting policy related to income tax penalties and interest assessments is to accrue for these costs and record a charge to expenses during the period that the Fund takes an uncertain tax position through resolution with the taxing authorities or expiration of the applicable statute of limitations.

All of the Fund's federal and state tax returns for 2015 through 2018 remain open to examination. We believe that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

## (7) COMMITMENTS AND CONTINGENCIES

*Lease Commitments.* We had an operating lease for office space that expired in September 2014. Our current office space lease as of December 31, 2016 is month-to-month. Rent expense under the operating lease agreement, inclusive of common area maintenance costs, was \$111,000, \$109,000 and \$89,000 for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

*Portfolio Companies.* As of December 31, 2018 and 2017, we had no outstanding commitments to our portfolio company investments; however, 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. Follow-on investments may include capital infusions which are expenditures made directly to the portfolio company to ensure that operations are completed, thereby allowing the portfolio company to generate cash flows to service the debt.

*Legal Proceedings—Shareholder Complaint.* On November 16, 2016, Samuel Zalmanoff filed a lawsuit against the Fund and members of the Board of Directors in the Court of Chancery in the State of Delaware. The lawsuit was filed in connection with the Fund's 2016 Equity Incentive Plan ("Incentive Plan") which was adopted by the Board of Directors on April 15, 2016, approved by the Equus shareholders on June 13, 2016, and approved, with certain standard exceptions, by the Securities and Exchange Commission on January 10, 2017. Mr. Zalmanoff's complaint, which purports to be on behalf of all non-affiliate Equus shareholders entitled to vote for the Incentive Plan, purports to allege a breach by the Board of Directors of its fiduciary duties of disclosure in connection with the Incentive Plan, and seeks an order from the court: (i) enjoining implementation of the Incentive Plan, (ii) requiring the Fund to revise its disclosures relating to the Incentive Plan, and (iii) for an award of costs, attorneys' fees, and expenses. We believe that this lawsuit, and the allegations included therein, are without merit and intend to continue a vigorous defense against the same. On September 22, 2017, we filed a motion for summary judgment regarding this action, which was granted by the Chancery Court on November 13, 2018. Mr. Zalmanoff appealed the Chancery Court ruling to the Delaware Supreme Court and the matter has been briefed for oral argument and a subsequent decision in the coming months. As such, we have concluded that the likelihood of an unfavorable outcome is neither probable nor remote.

Table of Contents

From time to time, the Fund is also a party to certain proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these proceedings will have a material effect upon the Fund's financial condition or results of operations.

**(8) PORTFOLIO SECURITIES****2018 Portfolio Activity**

During the year ended December 31, 2018, we received 30,930 shares of MVC in the form of stock dividend payments.

The following table summarizes significant investment activity during the year ended December 31, 2018 (in thousands):

Portfolio Company	Investment Activity				
	New		Existing		Total
	Cash	Non-Cash	Follow-Up	Dividend	
MVC Capital, Inc.	\$ —	\$ —	\$ —	\$ 303	\$ 303
	\$ —	\$ —	\$ —	\$ 303	\$ 303

During 2018, we realized net capital gains of \$9 thousand due to the disposition of temporary cash investments.

During 2018, we recorded an increase of \$3.6 million in net unrealized appreciation, from \$13.5 million at December 31, 2017 to \$17.1 million at December 31, 2018, in our portfolio securities. Such increase resulted primarily from the following changes:

- (i) Decrease in the fair value of our shareholding in MVC of \$1.2 million due to a decrease in the MVC share price during 2018, which was partially offset by the receipt of dividend payments in the form of additional shares of MVC;



Increase in fair value of our shareholding in PalletOne, Inc. (“PalletOne”) of \$3.8 million due to an overall improvement in comparable industry sectors, as well as continued revenue increases and promising acquisition (ii) and growth prospects;

and

Increase in the fair value of our holdings in Equus Energy of \$1.0 million, principally due to an increase in (iii) comparable transactions for mineral leases and a continued increase in short- and long-term prices for crude oil and natural gas.

## 2017 Portfolio Activity

During the year ended December 31, 2017, we received full payment of our senior secured promissory note (“Note”) issued by Biogenic Reagents, LLC (“Biogenic”), in the amount of \$2.4 million in cash, consisting of the original principal amount of the Note, together with approximately \$0.4 million in interest as accrued thereon.

During the year ended December 31, 2017, we had investment activity of \$0.3 million in three portfolio companies. We received \$0.04 million in semi-annual interest and \$13 thousand in PIK’d interest in respect of the Biogenic Note. During 2016, we received 20,253 shares of MVC in the form of stock dividend payments. We received \$12 thousand in PIK’d interest in respect to our loan to 5<sup>TH</sup> Element Tracking, LLC (“5<sup>TH</sup> Element”).

The following table summarizes significant investment activity during the year ended December 31, 2017 (in thousands):

Portfolio Company	Investment Activity				
	New Investments		Existing Investments		Total
	Cash	Non-Cash	Follow-On	PIK/Dividend	
5 <sup>TH</sup> Element Tracking, LLC	\$—	\$—	\$—	\$12	\$12
MVC Capital, Inc.	—	—	—	265	265
	\$—	\$—	\$—	\$277	\$277

During 2017, we realized net capital losses of \$5 thousand due to the disposition of temporary cash investments.

Table of Contents**Year Ended December 31, 2017**

During 2017, we recorded an increase of \$3.2 million in net unrealized appreciation, from \$10.3 million at December 31, 2016 to \$13.5 million at December 31, 2016, in our portfolio securities. Such increase resulted primarily from the following changes:

(i) Increase in the fair value of our shareholding in MVC of \$1.0 million due to an increase in the MVC share price during 2017 and the receipt of dividend payments in the form of additional shares of MVC;

(ii) Increase in fair value of our shareholding in PalletOne, Inc. (“PalletOne”) of \$0.5 million due to an overall improvement in comparable industry sectors, as well as continued revenue increases and promising acquisition and growth prospects; and

(iii) Increase in the fair value of our holdings in Equus Energy of \$1.7 million, principally due to an increase in comparable transactions for mineral leases, a combination of increased production, and a continued increase in short- and long-term prices for crude oil and natural gas.

**2016 Portfolio Activity**

During the year ended December 31, 2016, we had investment activity of \$2.4 million in three portfolio companies. We invested \$2.0 million in Biogenic in the form of a senior secured Note, bearing cash and PIK interest at the combined rate of 16% per annum. During 2016, we received \$0.04 million in semi-annual interest and \$13 thousand in PIK'd interest in respect of our note with 5<sup>TH</sup> Element. During 2016, we also received 22,863 shares of MVC in the form of dividend payments.

The following table summarizes significant investment activity during the year ended December 31, 2016 (in thousands):

Portfolio Company	Investment Activity				
	New Investments		Existing Investments		Total
	Cash	Non-Cash	Follow-On	PIK/Dividend	
Biogenic Reagents, LLC	\$2,000	\$—	\$—	\$13	\$2,013
MVC Capital, Inc.	—	—	—	313	313
5 <sup>TH</sup> Element Tracking, LLC	—	—	—	50	50
	\$2,000	\$—	\$—	\$376	\$2,376

During 2016, we realized net capital losses of \$13 thousand due to the disposition of temporary cash investments.

During 2016, we recorded an increase of \$7.9 million in net unrealized appreciation, from \$2.4 million at December 31, 2015 to \$10.3 million at December 31, 2016, in our portfolio securities. Such increase resulted primarily from the following changes:

- (i) Increase in the fair value of our shareholding in MVC of \$0.5 million due to an increase in the MVC share price during 2016 and the receipt of dividend payments in the form of additional shares of MVC;
- (ii) Increase in fair value of our shareholding in PalletOne of \$6.6 million due to continued strong revenue and earnings growth, and an overall improvement in comparable industry sectors;

- (iii) Increase in the fair value of our holdings in Equus Energy of \$0.8 million, principally due to a combination of an increase in comparable transactions for mineral leases, increased production, and a continued increase short- and long-term prices for crude oil and natural gas.

#### **(9) EQUUS ENERGY, LLC**

Equus Energy, LLC (“Equus Energy”) was formed in November 2011 as a wholly-owned subsidiary of the Fund to make investments in companies in the energy sector, with particular emphasis on income-producing oil & gas properties. In December 2011, we contributed \$250,000 to the capital of Equus Energy. On December 27, 2012, we invested an additional \$6.8 million in Equus Energy for the purpose of additional working capital and to fund the purchase of \$6.6 million in working interests presently consisting of 142 producing and non-producing oil and gas wells. The working interests include associated development rights of approximately 21,520 acres situated on 11 separate properties in Texas and Oklahoma. The working interests range from a *de minimus* amount to 50% of the leasehold that includes these wells.

Table of Contents

The wells are operated by a number of operators, including Chevron USA, Inc., which has operating responsibility for all of Equus Energy's 22 producing well interests located in the Conger Field, a productive oil and gas field on the edge of the Permian Basin that has experienced successful gas and hydrocarbon extraction in multiple formations. Equus Energy, which holds a 50% working interest in each of these Conger Field wells, is working with Chevron in a recompletion program of existing Conger Field wells to the Wolfcamp formation, a zone containing oil as well as gas and natural gas liquids. Part of Equus Energy's acreage rights described above also includes a 50% working interest in possible new drilling to the base of the Canyon formation (appx. 8,500 feet) on 2,400 acres in the Conger Field. Also included in the interests acquired by Equus Energy are working interests of 7.5% and 2.5% in the Burnell and North Pettus Units, respectively, which collectively comprise approximately 13,000 acres located in the area known as the "Eagle Ford Shale" play.

Below is selected financial information from the audited financial statements of Equus Energy as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016 (in thousands):

EQUUS ENERGY, LLC and SUBSIDIARYUnaudited Condensed Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 966	\$ 307
Accounts receivable	127	101
Other current assets	34	33
Total current assets	1,127	441
Oil and gas properties	8,014	8,064
Less: accumulated depletion, depreciation and amortization	(7,778 )	(7,434 )
Net oil and gas properties	236	630
Total assets	\$ 1,363	\$ 1,071
Liabilities and member's equity		
Current liabilities:		
Accounts payable and other	\$ 131	\$ 107
Due to affiliate	561	586
Total current liabilities	692	693
Asset retirement obligations	195	190
Total liabilities	887	883

Edgar Filing: EQUUS TOTAL RETURN, INC. - Form 10-K

Total member's equity	476	188
Total liabilities and member's equity	\$ 1,363	\$ 1,071

Table of ContentsEQUUS ENERGY, LLC and SUBSIDIARYCondensed Consolidated Statements of Operations

	Year Ended December 31		
	2018	2017	2016
Operating revenue	\$1,085	\$861	\$683
Operating expenses			
Direct operating expenses	787	554	632
Gain on sale of oil and gas properties	(619 )	—	—
General and administrative	284	278	392
Depletion, depreciation, amortization and accretion	344	295	369
Impairment of oil and gas properties	—	—	265
Total operating expenses	796	1,127	1,658
Income (loss) before income tax expense	289	(266 )	(975 )
Income tax expense, net	1	—	—
Net income (loss)	\$288	\$(266 )	\$(975 )

EQUUS ENERGY, LLC and SUBSIDIARYCondensed Consolidated Statements of Cash Flows

	Year ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	\$288	\$(266)	\$(975)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depletion, depreciation and amortization	338	289	369
Gain on sale of oil and gas properties	(619)	—	—
Accretion expense	6	6	—
Impairment	—	—	265
Changes in operating assets and liabilities:			
Accounts receivable	(26 )	(10 )	31
Prepaid expenses and other current assets	(2 )	(1 )	—
Affiliate payable/receivable	(25 )	(25 )	—
Accounts payable and other	25	32	(131)
Net cash (used in) provided by operating activities	(15 )	25	(441)
Cash flows from investing activities:			

Edgar Filing: EQUUS TOTAL RETURN, INC. - Form 10-K

Investment in oil & gas properties	(173)	(9 )	(35 )
Sale of oil & gas properties	847	—	250
Net cash provided by (used in) investing activities	674	(9 )	215
Net increase (decrease) in cash	659	16	(226)
Cash and cash equivalents at beginning of period	307	291	517
Cash and cash equivalents at end of period	\$966	\$307	\$291

Table of Contents

**(10) RECENT ACCOUNTING PRONOUNCEMENTS**

**Accounting Standards Recently Adopted**—In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) — Restricted Cash*. This standard provides guidance on the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. Restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. The amendments of this ASU should be applied using a retrospective transition method and are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. Other than the revised statement of cash flows presentation of restricted cash, the adoption of ASU 2016-18 did not have an impact on our financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718) —Improvements to Employee Share-Based Payment Accounting*, which is intended to improve the accounting for share-based payments and affects all organizations that issue share-based payment awards to their employees. ASU 2016-09 primarily simplifies the accounting for and classification of, income taxes related to share-based payment awards, including the impact of income taxes withheld on the classification of awards as equity or liabilities and the classification of income taxes on the statement of cash flows. ASU 2016-09 also permits an entity to elect a forfeiture rate assumption based on the estimated number of awards expected to vest or to account for forfeitures when they occur ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We have adopted ASU 2016-09 as of January 1, 2017. The provisions of ASU 2016-09 should be adopted on a modified retrospective, retrospective or prospective basis, depending on the provision. We recently adopted an incentive plan for our directors and management and issued awards under the plan during the quarter ended March 31, 2017. Our adoption of ASU 2016-09 did not have a material effect on our financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*, which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under ASC 230, Statement of Cash Flows, and other topics. ASU 2016-15 provides guidance on eight specific cash flow issues including the statement of cash flows treatment of beneficial interests in securitized financial transactions as well as the treatment of debt prepayment and extinguishment costs. ASU 2016-15 also provides guidance on the predominance principle to clarify when cash receipts and cash payments should be separated into more than one class of cash flows. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. There was no impact on our statements of cash flows.

In December 2016, the FASB issued ASU 2016-19, *Technical Corrections and Improvements*, which makes minor corrections and clarifications that affect a wide variety of topics in the Accounting Standards Codification, including an amendment to ASC Topic 820, Fair Value Measurement, which clarifies the difference between a valuation approach and a valuation technique when applying the guidance of that Topic. The amendment also requires an entity



to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. The transition guidance for the ASC Topic 820 amendment must be applied prospectively because it could potentially involve the use of hindsight that includes fair value measurements. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early application is permitted for any fiscal year or interim period for which the entity's financial statements have not yet been issued. There was no impact on the financial position or financial statement disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes the revenue recognition requirements under ASC 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarified the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarified the implementation guidance regarding performance obligations and licensing arrangements.

Table of Contents

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606)—Narrow-Scope Improvements and Practical Expedients*, which clarified guidance on assessing collectability, presenting sales tax, measuring noncash consideration, and certain transition matters.

In December 2016, the FASB issued ASU No. 2016-20, *Revenue from Contracts with Customers (Topic 606)—Technical Corrections and Improvements*, which provided disclosure relief, and clarified the scope and application of the new revenue standard and related cost guidance. The new guidance will be effective for the annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. Early adoption would be permitted for annual reporting periods beginning after December 15, 2016. We completed our initial assessment in evaluating the potential impact on our financial statements and based on our initial assessment, determined that our financial instruments are excluded from the scope of ASU 2014-09 and ASC 606. As a result of the scope exception for financial instruments, our management has determined that there was no material changes to the recognition timing and classification of revenues and expenses; additionally, there was no significant impact to pretax income or on financial statement disclosures upon adoption.

**Accounting Standards Not Yet Adopted**—In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize on the balance sheet a right of use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. The new guidance is effective for annual periods beginning after December 15, 2018, and interim periods therein. Early application is permitted. The adoption of ASU 2016-02 will not have an impact on our financial statements as we currently have no operating leases as our principal offices are under a month-to-month lease arrangement for annual periods beginning after December 15, 2018, and interim periods therein. Early application is permitted.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326) —Measurement of Credit Losses on Financial Instruments*, which amends the financial instruments impairment guidance so that an entity is required to measure expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts. As such, an entity will use forward-looking information to estimate credit losses. ASU 2016-13 also amends the guidance in FASB ASC Subtopic 325-40, *Investments -Other, Beneficial Interests in Securitized Financial Assets*, related to the subsequent measurement of accretable yield recognized as interest income over the life of a beneficial interest in securitized financial assets under the effective yield method. ASU 2016-13 effective for public business entities that meet the U.S. GAAP definition of an SEC filer, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of ASU 2016-13 on our financial statements.

On August 28, 2018, the FASB issued ASU 2018-13, which changes the fair value measurement disclosure requirements of ASC 820. The amendments remove certain disclosure requirements and modify certain others. The

amendments remove the requirement to disclose (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, (3) the valuation processes for Level 3 fair value measurements and (4) the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. Also, (1) in lieu of a rollforward for Level 3 fair value measurements, an entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities, (2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly, and (3) the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Early adoption is permitted. We are currently evaluating the impact of ASU 2018-13 on our financial statements.

Table of Contents**(11) SELECTED QUARTERLY DATA**

(in thousands, except per share amounts)	<b>Year Ended December 31, 2018</b>				
	<b>Quarter Ended March 31,</b>	<b>Quarter Ended June 30,</b>	<b>Quarter Ended September 30,</b>	<b>Quarter Ended December 31,</b>	<b>Total</b>
Total investment income	\$113	\$117	\$85	\$165	\$480
Net investment loss	(991)	(936)	(722)	(906)	(3,555)
Increase in net assets resulting from operations	56	793	2,358	(3,156)	51
Basic and diluted earnings per share <sup>(1)</sup>	0.00	0.06	0.17	(0.23)	0.00

(in thousands, except per share amounts)	<b>Year Ended December 31, 2017</b>				
	<b>Quarter Ended March 31,</b>	<b>Quarter Ended June 30,</b>	<b>Quarter Ended September 30,</b>	<b>Quarter Ended December 31,</b>	<b>Total</b>
Total investment income	\$190	\$137	\$112	\$121	\$560
Net investment loss	(2,480)	(333)	(441)	(760)	(4,014)
Increase in net assets resulting from operations	(1,802)	87	(121)	1,007	(829)
Basic and diluted earnings per share <sup>(1)</sup>	(0.14)	0.01	(0.01)	0.08	(0.06)

(in thousands, except per share amounts)	<b>Year Ended December 31, 2016</b>				
	<b>Quarter Ended March 31,</b>	<b>Quarter Ended June 30,</b>	<b>Quarter Ended September 30,</b>	<b>Quarter Ended December 31,</b>	<b>Total</b>
Total investment income	\$138	\$227	\$191	\$192	\$748
Net investment loss	(733)	(452)	(570)	(696)	(2,451)
Increase in net assets resulting from operations	242	2,067	1,889	1,234	5,432
Basic and diluted earnings per share <sup>(1)</sup>	0.02	0.17	0.16	0.08	0.43

<sup>(1)</sup> The sum of quarterly per share amount may not equal per share amounts reported for year-to-date periods due to changes in the number of weighted average shares outstanding and the effects of rounding.

## **(12) SUBSEQUENT EVENTS**

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

On January 2, 2019, we sold our holding in \$27.0 million in U. S. Treasury Bill and we repaid our year-end margin loan.

Table of Contents

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This section includes information concerning the controls and controls evaluation referred to in those certifications and should be read in conjunction with the certifications for a more complete understanding of the topics presented.

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” as promulgated under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Fund, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

**Management Report on Internal Control Over Financial Reporting**

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Fund are being made only in accordance with authorizations of Management and directors of the Fund; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Fund's assets that could have a material effect on the financial statements.

We assessed our internal control over financial reporting as of December 31, 2018, the end of our most recent fiscal year. We based our assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework" published in 2013. Our assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed both by a third-party consultant and our accounting department.

Based on our assessment, we have concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. The results of our assessment have been reviewed with the Audit Committee of our Board of Directors.

**Item 9B. Other Information**

None.

Table of Contents

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance***

Information about our Directors and Executive Officers, our Audit Committee and the Nominating and Corporate Governance Committee, our code of ethics applicable to the principal executive officer and principal financial officer, and Section 16(a) Beneficial Ownership Reporting Compliance is incorporated by reference to our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, on or prior to April 30, 2019 (the “2019 Proxy Statement”).

We have adopted a code of business conduct and ethics applicable to our directors, officers (including our principal executive officer, principal financial officer and controller) and employees, known as the Code of Business Conduct and Ethics. A copy of the Code of Business Conduct and Ethics is available to any person, without charge, upon request addressed to Equus Total Return, Inc., Attention: Corporate Secretary, 700 Louisiana Street, 48<sup>th</sup> Floor, Houston, TX 77002. In the event that we amend or waive any of the provisions of the Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, or controller, we intend to disclose the same on its website at [www.equuscap.com](http://www.equuscap.com).

**Item 11. *Executive Compensation***

Information regarding Executive Compensation is incorporated by reference to our 2019 Proxy Statement.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information regarding Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans is incorporated by reference to our 2019 Proxy Statement.

**Item 13. *Certain Relationships and Related Transactions and Director Independence***



Information regarding Certain Relationships and Related Transactions is incorporated by reference to our 2019 Proxy Statement.

**Item 14. *Principal Accountant Fees and Services***

Information regarding Principal Accountant Fees and Services is incorporated by reference to our 2019 Proxy Statement.

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules***

**(a)(1) The following financial statement schedules are filed herewith:**

Schedule 12-14 Investments in and Advances to Affiliates 62

Item 16. *Form 10-K Summary*

Not Included.

Table of Contents**SCHEDULE 12-14****EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES**

(in thousands)

Portfolio Company	Investment (a)	Year Ended		As of December 31, 2017	Gross Additions <sup>(b)</sup>	Gross Reductions <sup>(c)</sup>	Fair Value
		December 31, 2018	Amount of Interest or Dividend Credited to Income <sup>(d)</sup>				
Control investments: Majority-owned							
Equus Energy, LLC	Member interest (100%)	\$ -		\$ 8,000	\$ 1,000	\$ -	\$ -
Equus Media Development Company, LLC	Member interest (100%)		-	212	-	(2)	
Total Control investments:			-	8,212	1,000	(2)	
Affiliate Investments							
PalletOne, Inc.	350,000 shares of common stock	-		16,686	3,814	-	
Total Affiliate investments			-	16,686	3,814	-	
Total Investments In and Advances to Affiliates		\$ -		\$ 24,898	\$ 4,814	\$ (2)	\$ -

This schedule should be read in conjunction with our Financial Statements, including our *Schedule of Investments* and Notes 3 and 4 to the Financial Statements.

(a)

Common stock, warrants, options and equity interests are generally non-income producing and restricted. In some cases, preferred stock may also be non-income producing. The principal amount for debt and the number of shares of common stock and preferred stock is shown in the Schedule of Portfolio Securities as of December 31, 2018.

(b) Gross additions include increases in investments resulting from new portfolio company investments, paid-in-kind interest or dividends, the amortization of discounts and fees, and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.

(c) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.

(d) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was a control investment (more than 25% owned) or an affiliate investment (5% to 25% owned), respectively. All dividend income is non-cash unless otherwise noted.

Table of Contents

**(a)(2) 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(b) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.]
- (c) Amended and Restated Bylaws of the Fund. [Incorporated by reference to Exhibit 3(b) to Registrant's Current Report on Form 8-K filed on December 16, 2010.]

10. Material Contracts.

- (c) Safekeeping Agreement between the Fund and Amegy Bank dated August 16, 2008. [Incorporated by reference to Exhibit 10(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.]
- (d) Form of Indemnification Agreement between the Fund and certain of its directors and officers. [Incorporated by reference to Exhibit 10(d) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011]
- (e) Form of Release Agreement between the Fund and certain of its officers and former officers. [Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.]
- (f) Code of Ethics of the Fund (Rule 17j-1) [Incorporated by reference to Exhibit 10(f) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.]
- (g) Share Exchange Agreement between the Fund and MVC Capital, Inc., dated May 14, 2014 [Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on May 15, 2014.]
- (h) Plan of Reorganization of the Registrant, dated as of May 13, 2014 [Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on May 15, 2014.]
- (i) 2016 Equity Incentive Plan, adopted June 13, 2016 [Incorporated by reference to Exhibit 1 to Registrant's Definitive Proxy Statement filed on May 5, 2016.]

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

(1) Certification by Chief Executive Officer

(2) Certification by Chief Financial Officer

32. Section 1350 Certification

(1) Certification by Chief Executive Officer

(2) Certification by Chief Financial Officer

99. Equus Energy, LLC and Subsidiary

Consolidated Financial Statements of Equus Energy, LLC and Subsidiary as of December 31, 2018 and 2017 and (1) for the years ended December 31, 2018, 2017 and 2016 [Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 10-K filed on March 29, 2018.]

63

Table of Contents

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: March 29, 2019 /S/ JOHN A. HARDY  
**John A. Hardy**  
**Chief Executive Officer**  
  
**(Principal Executive Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/S/ FRASER ATKINSON <b>Fraser Atkinson</b>	Director	March 29, 2019
/S/ KENNETH I. DENOS <b>Kenneth I. Denos</b>	Director, Secretary and Chief Compliance Officer	March 29, 2019
/S/ HENRY W. HANKINSON <b>Henry W. Hankinson</b>	Director	March 29, 2019
/S/ ROBERT L. KNAUSS <b>Robert L. Knauss</b>	Director	March 29, 2019
/S/ JOHN A. HARDY <b>John A. Hardy</b>	Director, Chief Executive Officer (Principal Executive Officer)	March 29, 2019
/S/ L'SHERYL D. HUDSON <b>L'Sheryl D. Hudson</b>	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2019

