

EQUUS TOTAL RETURN, INC.

Form 10-Q

November 14, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2008

or

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

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-19509

**EQUUS TOTAL RETURN, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**2727 Allen Parkway, 13th Floor Houston, Texas**  
(Address of principal executive offices)

**77019**  
(Zip Code)

**Registrant's telephone number, including area code: (713) 529-0900**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

**Large accelerated filer**  **Accelerated filer**  **Non-accelerated filer**  **Smaller Reporting Company**   
Indicate by check mark whether the registrant is a shell company. Yes  No

There were 8,260,671 shares of the registrant's common stock, \$.001 par value, outstanding, as of November 14, 2008. The net asset value of a share at September 30, 2008 was \$11.41.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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Index to Financial StatementsEQUUS TOTAL RETURN, INC.BALANCE SHEETSSEPTEMBER 30, 2008 AND DECEMBER 31, 2007

<b>(in thousands, except per share amounts)</b>	<b>September 30, 2008 (unaudited)</b>	<b>December 31, 2007</b>
<u>Assets</u>		
Investments in portfolio securities at fair value:		
Control investments (cost at \$36,378 and \$23,444 respectively)	\$ 38,477	\$ 25,646
Affiliate investments (cost at \$18,173 and \$14,721 respectively)	34,564	32,111
Non-affiliate investments (cost at \$16,795 and \$17,118 respectively)	11,000	14,345
 Total investments in portfolio securities at fair value	 84,041	 72,102
Restricted cash & temporary investments, at cost which approximates fair value	55,544	30,296
Cash	53	28
Temporary cash investments, at cost which approximates fair value	9,048	30,912
Accounts receivable	8	107
Accrued interest and dividends receivable due from portfolio companies	1,179	1,023
Escrowed receivables, at fair value		262
 Total assets	 \$ 149,873	 \$ 134,730
<u>Liabilities and net assets</u>		
<u>Liabilities:</u>		
Accounts payable and accrued liabilities	\$ 56	\$ 108
Due to adviser	588	1,410
Borrowing under margin account	54,994	29,996
 Total liabilities	 55,638	 31,514
 Commitments and contingencies		
<u>Net assets:</u>		
Preferred stock, \$.001 par value, 5,000 shares authorized, no shares outstanding		8
Common stock, \$.001 par value, 50,000 shares authorized, 8,261 and 8,401 shares outstanding	8	8
Additional paid-in capital	87,931	89,021
Undistributed net investment losses	(7,376)	(3,772)
Undistributed net capital gains	977	1,141
Unrealized appreciation of portfolio securities, net	12,695	16,818
 Total net assets	 \$ 94,235	 \$ 103,216
 Net assets per share	 \$ 11.41	 \$ 12.29

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

Index to Financial StatementsEQUUS TOTAL RETURN, INC.STATEMENTS OF OPERATIONSFOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Unaudited)

<b>(in thousands, except per share amounts)</b>	<b>2008</b>	<b>2007</b>
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	\$ 221	\$ 407
Affiliate investments	216	184
Non-affiliate investments	(233)	158
Total interest and dividend income	204	749
Interest from temporary cash investments	88	402
Total investment income	292	1,151
Expenses:		
Management fee	463	304
Incentive fee	14	(3)
Professional fees	179	242
Administrative fees	113	113
Director fees and expenses	89	93
Mailing, printing and other expenses	55	38
Interest expense	4	23
Taxes		21
Offering costs		609
Total expenses	917	1,440
Net investment gain (loss)	(625)	(289)
Net realized gain (loss) on portfolio securities:		
Control investments	(1)	106
Affiliate investments		
Non-affiliate investments		
Total net realized gain (loss) on portfolio securities	(1)	106
Net unrealized appreciation of portfolio securities:		
End of period	12,695	1,319
Beginning of period	17,129	4,935
Net change in unrealized appreciation of portfolio securities	(4,434)	(3,616)
Net decrease in net assets resulting from operations	\$ (5,060)	\$ (3,799)
Net decrease in net assets resulting from operations, per share:		
Basic and diluted	\$ (0.60)	\$ (0.46)

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Weighted average shares outstanding, in thousands		
Basic and diluted	8,497	8,270

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

**Index to Financial Statements****EQUUS TOTAL RETURN, INC.****STATEMENTS OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

(Unaudited)

<b>(in thousands, except per share amounts)</b>	<b>2008</b>	<b>2007</b>
Investment income:		
Interest and dividend income from portfolio securities:		
Control investments	\$ 605	\$ 1,259
Affiliate investments	677	496
Non-affiliate investments	611	464
Total interest and dividend income	1,893	2,219
Interest from temporary cash investments	480	1,414
Total investment income	2,373	3,633
Expenses:		
Management fee	1,485	1,225
Incentive fee	124	1,216
Professional fees	566	591
Administrative fees	338	338
Director fees and expenses	323	263
Mailing, printing and other expenses	226	255
Interest expense	20	66
Taxes	10	65
Offering costs		609
Total expenses	3,092	4,628
Net investment loss	(719)	(995)
Net realized gain (loss) on portfolio securities:		
Control investments	626	1,492
Affiliate investments	351	3,747
Non-affiliate investments		19
Total net realized gain on portfolio securities	977	5,258
Net unrealized appreciation of portfolio securities:		
End of period	12,695	1,319
Beginning of period	16,818	9,292
Net change in unrealized appreciation of portfolio securities	(4,123)	(7,973)
Net decrease in net assets resulting from operations	\$ (3,865)	\$ (3,710)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	\$ (0.46)	\$ (0.45)

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Weighted average shares outstanding, in thousands		
Basic and diluted	8,475	8,219

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



Index to Financial StatementsEQUUS TOTAL RETURN, INC.STATEMENTS OF CHANGES IN NET ASSETSFOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Unaudited)

(in thousands)	2008	2007
Operations:		
Net investment loss	\$ (719)	\$ (995)
Net realized gain on portfolio securities	977	5,258
Net change in unrealized appreciation of portfolio securities	(4,123)	(7,973)
Net increase (decrease) in net assets resulting from operations	(3,865)	(3,710)
Capital share transactions:		
Dividends declared	(4,026)	(3,081)
Shares issued in lieu of cash dividend	1,920	1,417
Repurchase of common stock	(3,010)	
Decrease in net assets resulting from capital share transactions	(5,116)	(1,664)
Decrease in net assets	(8,981)	(5,374)
Net assets at beginning of period	103,216	93,236
Net assets at end of period	\$ (94,235)	\$ 87,862

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

Index to Financial StatementsEQUUS TOTAL RETURN, INC.STATEMENTS OF CASH FLOWSFOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Unaudited)

(in thousands)	2008	2007
Reconciliation of increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net decrease in net assets resulting from operations	\$ (3,865)	\$ (3,710)
Adjustments to reconcile increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net realized gain on dispositions of portfolio securities	(977)	(5,258)
Net change in unrealized appreciation of portfolio securities	4,123	7,973
Amortization of original issue discount	166	44
Change in operating assets and liabilities:		
Purchase of portfolio securities	(18,808)	(24,469)
Proceeds from dispositions of portfolio securities	3,915	6,658
Principal payments from portfolio securities		4,697
Purchases of restricted temporary cash investments	(25,248)	(7)
Decrease in accounts receivable	99	27
Increase in accrued interest and dividends receivable due from portfolio companies	(514)	(1,303)
Decrease in deferred offering costs		609
Decrease in accrued escrowed receivables	262	
Decrease in accounts payable and accrued liabilities	(52)	(117)
Decrease in due to adviser	(822)	(782)
Net cash used in operating activities	\$ (41,721)	\$ (15,638)
Cash flows from financing activities:		
Borrowings under margin account	140,992	89,947
Repayments under margin account	(115,994)	(89,940)
Dividends paid	(2,106)	(1,664)
Repurchase of common stock	(3,010)	
Cash paid for deferred offering costs		(25)
Net cash provided by (used in) financing activities	19,882	(1,682)
Net decrease in cash and cash equivalents	(21,839)	(17,320)
Cash and cash equivalents at beginning of period	30,940	51,499
Cash and cash equivalents at end of period	\$ 9,101	\$ 34,179
Non-cash financing activities:		
Shares issued in lieu of cash dividend	\$ 1,920	\$ 1,417
Accrued interest or dividends exchanged for portfolio securities	\$ 358	\$ 481
Supplemental disclosure of cash flow information:		
Interest paid	\$ 16	\$ 48

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Income taxes paid

\$ 10 \$ 51

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

Index to Financial StatementsEQUUS TOTAL RETURN, INC.SUPPLEMENTAL INFORMATION - SELECTED PER SHARE DATA AND RATIOSFOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Unaudited)

	<b>2008</b>	<b>2007</b>
Investment income	\$ 0.28	\$ 0.44
Expenses	0.36	0.56
Net investment loss	(0.08)	(0.12)
Net realized gain on portfolio securities	0.12	0.66
Net change in unrealized appreciation of portfolio securities	(0.49)	(0.98)
Net decrease in net assets resulting from operations	(0.45)	(0.44)
Capital Transactions:		
Dividend declared	(0.47)	(0.38)
Share Repurchase	(0.36)	
Dilutive effect of shares issued in common stock dividend	0.40	(0.06)
Decrease in net assets resulting from capital transactions	(0.43)	(0.44)
Net decrease in net assets	(0.88)	(0.88)
Net assets at beginning of period	12.29	11.42
Net assets at end of period, basic and diluted	\$ 11.41	\$ 10.54
Weighted average number of shares outstanding during period, in thousands	8,475	8,219
Market value per share at end of period	\$ 6.20	\$ 7.63
Ratio of expenses to average net assets	3.13%	5.11%
Ratio of net investment loss to average net assets	(0.73)%	(1.10)%
Ratio of net increase in net assets resulting from operations to average net assets	(3.91)%	4.10%
Total return on market price	5.77%*	6.26%

\* Total return equals the change in the ending market value over the beginning of period price per share plus dividends declared per share during the period, divided by the beginning price.

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

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## EQUUS TOTAL RETURN, INC.

## SCHEDULE OF PORTFOLIO SECURITIES

SEPTEMBER 30, 2008

(unaudited)

## Name and Location of

Portfolio Company	Industry	Date of Initial Investment	Investment	Principal Investment	Cost of Investment	Fair Value(3)
<b>Control investments: Majority-owned (7):</b>						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member Interest	\$ 5,000	\$ 5,000	\$ 5,000
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%) 8% promissory notes	\$ 9,435	65 9,435	65 9,435
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996(4)	1,214,630 shares of common stock(1) 12% promissory notes(1)	3,250	5,080 3,250	4,405 3,250
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999(4)	285,000 units of Class A equity interest 16% subordinated promissory note(1)	1,690	2,850 1,690	6,103 1,690
<b>Total Control investments: Majority-owned (represents 35.6% of total investments at fair value)</b>				<b>\$ 27,370</b>	<b>\$ 29,948</b>	
<b>Control Investments: Non-majority owned (6):</b>						
ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	February 1997(4)	24,397,303 shares of common stock 7% Promissory note Member interest in CCI-ANI Finance, LLC Member interest (66.7%) in JL Madre, LLC(1)	\$ 3,266	1,370 3,266 2,734 865	\$ 444 3,494 2,926 892
HealthSPAC, LLC El Segundo, CA	Healthcare	December 2006	Member interest (40%)		773	773
<b>Total Control Investments: Non-majority Owned (represents 10.2% of total investments at fair value)</b>				<b>\$ 9,008</b>	<b>\$ 8,529</b>	
<b>Total Control Investments: (represents 45.8% of total investments at fair value)</b>				<b>\$ 36,378</b>	<b>\$ 38,477</b>	
<b>Affiliate Investments (5):</b>						
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	666,667 Class A Shares Preferred Stock	\$ 3,000	\$ 20,741	

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			160,720 Class B Shares Preferred Stock		5,000	5,000
Nickent Golf, Inc. City of Industry, CA	Entertainment and leisure	June 2007	13% Promissory Note(1)(2) 3,000,000 shares Class A Convertible Preferred Stock Warrants to buy 15,000 shares of common stock at \$1 per share through March 17, 2013 Warrants to buy 463,917 shares of common stock at \$0.97 per share through August 4, 2010, warrant terms subject to change	\$ 6,250	6,250 3,000	6,250 2,000
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001(4)	350,000 shares of common stock		350	
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Membership Interest (17.2%)		573	573
<b>Total Affiliate Investments (represents 41.1% of total investments at fair value)</b>					<b>\$ 18,173</b>	<b>\$ 34,564</b>

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

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## EQUUS TOTAL RETURN, INC.

## SCHEDULE OF PORTFOLIO SECURITIES

SEPTEMBER 30, 2008

(unaudited)

(continued)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(3)
				<i>(amounts in thousands)</i>		
<b>Non-Affiliate Investments (less than 5% owned):</b>						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% Promissory note(1)(2)	\$ 3,000	\$ 3,000	\$ 3,000
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007	18% Promissory note(1)	3,000	3,000	3,000
Creekstone Florida Holdings, LLC Houston, TX	Real Estate	December 2005	17-19.8% subordinated promissory note(2)	4,000	4,000	
London Bridge Entertainment Partners LLC New York, NY	Entertainment and leisure	August 2008	18% Promissory note(1)	2,500	2,500	2,500
Metic Solutions, PLC London, UK	Business products and services	August 2008	Promissory note convertible into common stock (2)(9)	1,000	1,000	1,000
The Bradshaw Group Richardson, TX	Business products and services	May 2000(4)	576,828 Class B Shares 12.25% preferred stock 38,750 Class C shares preferred stock 788,649 Class D shares 15% preferred stock 2,218,109 Class E shares 8% preferred stock Warrant to buy 2,229,450 shares of common stock through May 2008		1,795	
Trulite, Inc. Houston, TX	Alternative energy	August 2008	15% Promissory note(1)	1,500	1,500	1,500
<b>Total Non-Affiliate Investments (represents 13.1% of total investments at fair value)</b>				<b>\$ 16,795</b>	<b>\$ 11,000</b>	
<b>Total Investments</b>				<b>\$ 71,346</b>	<b>\$ 84,041</b>	

(1) Income-producing. All other securities are considered non-income producing.

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- (2) Income on these securities is paid-in-kind by the issuance of additional securities, accrued as interest for conversion to common stock or accreted through original issue discount.
- (3) See Business Valuation.
- (4) Investments prior to June 30, 2005 were not selected by the current Adviser.
- (5) Affiliate investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns at least 5% but not more than 25% voting securities of the company.
- (6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.
- (7) Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 50% of the voting securities of the company.
- (8) In May 2008, Sovereign restructured its ownership and debt. As a result, the Fund's ownership interest increased to majority-owned control investment.
- (9) Note to accrue interest at a rate equal to the Bank of Scotland plus 2%. All accrued interest to convert with the note.

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



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(Unaudited)

(Continued)

Substantially all of the Fund's portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933. The Fund negotiates certain aspects of the method and timing of the disposition of the Fund's investment in each portfolio company, including registration rights and related costs.

As defined in the Investment Company Act of 1940, all of the Fund's investments are in eligible portfolio companies. The Fund provides significant managerial assistance to all of the portfolio companies in which it has invested. The Fund provides significant managerial assistance to portfolio companies that comprise 90% of the total value of the investments in portfolio companies as of September 30, 2008.

The Fund's investments in portfolio securities consist of the following types of securities as of September 30, 2008 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	\$ 38,891	\$ 35,119	37.4%
Preferred stock	12,795	27,741	29.4%
Limited liability company investments	12,860	16,332	17.3%
Common stock	6,800	4,849	5.1%
Options and warrants			0.0%
Total	\$ 71,346	\$ 84,041	89.2%

Four notes receivable included in secured and subordinated debt with an estimated fair value of \$10.5 million provide that all or a portion of interest is paid-in-kind or the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. For the remainder of secured and subordinated debt, cash payments of interest are currently being received on notes aggregating \$11.9 million in fair value, while no cash payments are being received for notes totaling \$12.9 million.

The following is a summary by industry of the Fund's investments in portfolio securities as of September 30, 2008 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Alternative energy	\$ 27,241	28.9%
Entertainment and leisure	26,250	27.9%
Business products and services	16,448	17.5%
Shipping products and services	7,756	8.2%
Media	5,000	5.3%
Real estate		
Healthcare	1,346	1.4%
Total	\$ 84,041	89.2%

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

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## EQUUS TOTAL RETURN, INC.

## SCHEDULE OF PORTFOLIO SECURITIES

DECEMBER 31, 2007

## Name and Location of

Portfolio Company	Industry	Date of Initial Investment	Type of Securities	Principal	Cost of Investment	Fair Value(3)
				<i>(amounts in thousands)</i>		
<b>Control Investments: Majority-owned(7):</b>						
Equus Media Development Company, LLC Houston, TX	Media	January 2007(4)	Member Interest (100%)		\$ 5,000	\$ 5,000
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005(4)	Member interest (64.67%)		65	65
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	8% promissory notes 285,000 units of Class A equity interest	\$4,835	4,835	4,835
			16% subordinated promissory note(1)(2)	1,304	1,304	1,304
			12.75% subordinated promissory note(1)(2)	386	386	386
<b>Total Control Investments: Majority-owned (represents 27.7% of total investments at fair value)</b>					<b>\$14,440</b>	<b>\$19,971</b>
<b>Control Investments: Non-majority-owned(6):</b>						
ConGlobal Industries Holding, Inc. Houston, TX	Shipping products and services	February 1997	24,397,303 shares of common stock		1,370	
			Promissory note(2)	3,266	3,266	2,153
			Member interest in CCI-ANI Finance, LLC(2)		2,734	1,803
			Member interest (66.7%) in JL Madre, LLC(1)		1,000	1,035
			Member interest (28.3%) in JL Madre Equipment, LLC(1)		69	119
HealthSPAC, LLC El Segundo, CA	Healthcare	December 2006(4)	Member interest (40%)		565	565
<b>Total Control Investments: Non-majority-owned (represents 7.9% of total investments at fair value)</b>					<b>\$ 9,004</b>	<b>\$ 5,675</b>
<b>Total Control Investments: (represents 35.6% of total investments at fair value)</b>					<b>\$23,444</b>	<b>\$25,646</b>
<b>Affiliate Investments(5):</b>						
Infinia Corporation	Alternative energy	June 2007(4)	666,667 Class A Shares Preferred Stock		3,000	20,740

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Kennewick, WA

Nickent Golf, Inc.	Entertainment and leisure	June 2007(4)	13% Promissory Note(1)(2)	6,066	6,066	6,066
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City of Industry, CA

			2,000,000 shares Class A Convertible Preferred Stock		2,000	2,000
			Warrants to buy 463,917 shares of common stock at \$0.97 per share through August 4, 2009, warrant terms subject to change			

PalletOne, Inc.	Shipping products and services	October 2001	350,000 shares of common stock		350	
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South Bartow, FL

RP&C International Investments LLC New York, NY	Healthcare	September 2006(4)	Membership Interest (17.2%)		3,305	3,305
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<b>Total Affiliate Investments (represents 44.5% of total investments at fair value)</b>					<b>\$14,721</b>	<b>\$32,111</b>
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The accompanying notes are an integral part of these financial statements.

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## EQUUS TOTAL RETURN, INC.

## SCHEDULE OF PORTFOLIO SECURITIES

DECEMBER 31, 2007

(continued)

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	Principal	Cost of Investment	Fair Value(3)
				<i>(amounts in thousands)</i>		
<b>Non-Affiliate Investments (less than 5% owned)</b>						
Big Apple Entertainment Partners LLC New York, NY	Entertainment and leisure	October 2007(4)	Promissory note(1)	\$3,000	\$ 3,000	\$ 3,000
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock		1,795	485
			38,750 Class C shares preferred stock			
			788,649 Class D shares 15% preferred stock			
			2,218,109 Class E shares 8% preferred stock			
			Warrant to buy 2,229,450 shares of common stock through May 2008			
Creekstone Florida Holdings, LLC Houston, TX	Real estate	December 2005(4)	17-19.8% subordinated promissory note(1)(2)	4,000	4,166	4,166
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	29,854 shares of preferred stock(1)(2)		2,985	1,522
			15% promissory notes(1)(2)	5,172	5,172	5,172
			Warrant to buy 551,894 shares of common stock at \$1 per share through Aug 2008			
			Warrant to buy 25,070 shares of common stock at \$1.25 per share through Aug 2008			
			Warrant to buy 273,450 shares of common stock at \$1 per share through Oct 2009			
<b>Total Non-Affiliate Investments (represents 19.9% of total investments at fair value)</b>					<b>\$17,118</b>	<b>\$14,345</b>
<b>Total Investments</b>					<b>\$55,283</b>	<b>\$72,102</b>

(1) Income-producing. All other securities are considered non-income producing.

(2) Income on these securities is paid-in-kind by the issuance of additional securities or through accretion of original issue discount.

(3) See Business Valuation.

(4) Investments subsequent to June 30, 2005 were selected, and are managed, by the Adviser.

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

(6) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 25% but not more than 50% of the voting securities of the company.

(7) Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which the Fund owns more than 50% of the voting securities of the company.

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

**Index to Financial Statements****EQUUS TOTAL RETURN, INC.****SCHEDULE OF PORTFOLIO SECURITIES****DECEMBER 31, 2007**

(Continued)

Substantially all of the Fund's portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933. The Fund negotiates certain aspects of the method and timing of the disposition of the Fund's investment in each portfolio company, including registration rights and related costs.

As defined in the Investment Company Act of 1940, all of the Fund's investments are in eligible portfolio companies. The Fund provides significant managerial assistance to all of the portfolio companies in which it has invested. The Fund provides significant managerial assistance to portfolio companies that comprise 96% of the total value of the investments in portfolio companies as of December 31, 2007.

The Fund's investments in portfolio securities consist of the following types of securities at December 31, 2007 (in thousands):

<b>Type of Securities</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Fair Value as Percentage of Net Assets</b>
Secured and subordinated debt	\$ 28,195	\$ 27,083	26.3%
Preferred stock	9,780	24,747	24.0%
Limited liability company	12,738	11,891	11.5%
Common stock	4,570	8,381	8.1%
Options and warrants			0.0%
Total	\$ 55,283	\$ 72,102	69.9%

Six notes receivable included in secured and subordinated debt with an estimated fair value of \$19.3 million provided that all or a portion of interest is paid-in-kind or the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. For the remainder of secured and subordinated debt, cash payments of interest are being made currently on notes aggregating \$3.0 million in fair value, while no cash payments are being received for notes totalling \$4.8 million.

The following is a summary by industry of the Fund's investments as of December 31, 2007 (in thousands):

<b>Industry</b>	<b>Fair Value</b>	<b>Fair Value as Percentage of Net Assets</b>
Alternative energy	\$ 20,740	20.1%
Business products and services	17,250	16.7%
Entertainment and leisure	15,966	15.5%
Shipping products and services	5,110	5.0%
Media	5,000	4.8%
Real estate	4,166	4.0%
Healthcare	3,870	3.8%
Total	\$ 72,102	69.9%

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



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EQUUS TOTAL RETURN, INC.

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(1) Description of Business and Basis of Presentation

**Description of Business** Equus Total Return, Inc. (the Fund), formerly Equus II Incorporated, 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. The shares of the Fund trade on the New York Stock Exchange under the symbol EQS. On August 11, 2006, shareholders of the Fund approved the change of the Fund's investment strategy to a total return investment objective. This new strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

The Fund seeks 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. The Fund seeks to invest primarily in companies which intend to grow either by acquiring other businesses, including leveraged buyouts, or internally. The Fund may also invest in recapitalizations of existing businesses or special situations from time to time. The Fund's investments in portfolio companies consist principally of equity securities such as common and preferred stock, but also include other equity-oriented securities such as debt convertible into common or preferred stock or debt combined with warrants, options or other rights to acquire common or preferred stock. The Fund elected to be treated as a business development company under the Investment Company Act of 1940 (Investment Company Act). For tax purposes, the Fund has elected to be treated as a regulated investment company (RIC). With shareholder approval on June 30, 2005, the Fund entered into an investment advisory agreement with Moore Clayton Capital Advisors, Inc. (the Adviser). Prior to this agreement, the Fund's adviser was Equus Capital Management Corporation.

The Fund elected to retain the Adviser in part to provide the Fund with enhanced investment opportunities in both the United States and internationally. Effective August 11, 2006, the Fund began to employ a total return investment style. The total return style combines both growth and income investments and is intended to strike a balance between the potential for gain and the risk of loss. In the growth category, the Fund is a growth-at-reasonable-price investor. The Fund invests primarily in privately owned companies and is open to virtually any potential growth investment in the privately owned arena. However, the Fund's primary aim is to identify and acquire only those equity securities that meet its criteria for selling at reasonable prices. The income investments made by the Fund consist principally of purchasing debt financing with the objective of generating regular interest income back to the fund as well as long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

The Fund has decided to further the total return investment objective, with authorization from the Board of Directors (which includes all of the Fund's independent directors) and approval of a majority of the shareholders, by amending the Fund's Restated Certificate of Incorporation to change the name of the Fund from Equus II Incorporated to Equus Total Return, Inc. This proposal was approved by a majority of the shareholders on August 11, 2006.

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

The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of results that ultimately may be achieved for the year. The interim unaudited consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund's Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC. Certain prior period information has been reclassified to conform to current year presentation.

(2) Liquidity and Financing Arrangements

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There are several factors that may materially affect the Fund's liquidity during the reasonably foreseeable future. The Fund views this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e.*, the period through September 30, 2009.

Management is currently evaluating the impact of current market conditions on its portfolio company valuations and their ability to provide current income. Management has followed valuation techniques in a consistent manner; however, it is cognizant of current market conditions that might effect future valuations of portfolio securities. If necessary to meet the Fund's investment commitments of \$8.2 million, the Fund has a secured \$7.5 million revolving line of credit facility with Amegy Bank. The Fund has not yet borrowed under this facility. The Fund believes that its 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.

While the Fund seeks to pay dividends on a quarterly basis, the Board of Directors has approved the payment of these dividends to be in the Fund's common stock until further notice; thus, the future dividends should not affect the Fund's liquidity.

As of September 30, 2008, the Fund had cash and temporary cash investments of \$9.1 million. The Fund had \$84.0 million of its net assets of \$94.2 million invested in portfolio securities. Restricted assets totaled \$55.5 million, of which \$55.0 million was invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund's pass-through tax treatment and \$0.5 million represented a required 1% brokerage margin deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on October 2, 2008.

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On September 11, 2008, the Fund repurchased an aggregate of 423,960 shares of its common stock for \$3.0 million, representing 4.9% of its outstanding shares, from unaffiliated third parties in a private transaction at the shares' market price computed as the 5-day volume-weighted average closing price prior to the date of sale.

On February 19, 2008, the Fund revised its managed distribution policy to pay 10% of the Fund's market value based on the 2007 year-end closing price of \$6.31. In accordance with the revised policy, the Fund announced the declaration of a third quarter dividend of \$0.158 per share on August 7, 2008. A dividend in the amount of \$1.4 million was paid on September 29, 2008 to shareholders of record as of August 25, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by September 22, 2008. The Fund paid \$0.7 million in cash and issued 103,702 additional shares at an effective price of \$6.62 per share. A dividend in the amount of \$1.3 million was paid on June 30, 2008, to shareholders of record as of May 27, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by June 23, 2008. The Fund paid \$0.7 million in cash, and issued 84,727 additional shares of its common stock at an effective price of \$7.04 per share. A dividend in the amount of \$1.3 million was paid on March 31, 2008 to shareholders of record as of February 29, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by March 24, 2008. The Fund paid \$0.7 million in cash, and issued 95,023 additional shares of its common stock at an effective price of \$6.71 per share. The classification of these dividends as between ordinary income, capital gain and return of capital will not be known until December 31, 2008, since any purchase or sale of a portfolio company during the remainder of the year will affect the classification. See Note (11) for the Fund's fourth quarter dividend.

Under certain circumstances, the Fund may be called on to make follow-on investments in certain portfolio companies. If the Fund does not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, the Fund's equity interest in the estimated fair value of the portfolio company could be reduced. In August 2008, the Fund entered into an agreement for a \$7.5 million revolving line of credit facility with Amegy Bank National Association. The line of credit is intended to enable the Fund to make follow-on investments. The Fund has not yet borrowed under the facility.

During the nine months ended September 30, 2008, the Fund 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 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 the Fund's net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be material to us and the Fund's stockholders.

As of September 30, 2008, the Fund borrowed \$55.0 million to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of \$55.5 million as of September 30, 2008. The U.S. Treasury bills were sold and the total amount borrowed was repaid on October 2, 2008.

As of December 31, 2007, the Fund borrowed \$30.0 million to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of \$30.3 million. The U.S. Treasury bills matured and the total amount borrowed was repaid on January 3, 2008.

(3) Significant Accounting Policies

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

**Use of Estimates** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although management believes the estimates and assumptions used in preparing these interim financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates.



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**EQUUS TOTAL RETURN, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**Valuation of Investments** Portfolio investments are carried at fair value with the net change in unrealized appreciation or depreciation included in the determination of net assets. Valuations of portfolio securities are performed in accordance with accounting principles generally accepted in the United States of America and the financial reporting policies of the Securities and Exchange Commission ( SEC ). The applicable methods prescribed by such principles and policies are described below:

*Publicly-traded portfolio securities* Investments in companies whose securities are publicly traded are valued at their quoted market price at the close of business on the valuation date, less a discount to reflect the estimated effects of restrictions on the sale of such securities ( Valuation Discount ), if applicable.

*Privately-held portfolio securities* The fair value of investments for which no market exists is determined on the basis of procedures established in good faith by the Board of Directors of the Fund. As a general principle, the current fair value of an investment would be the amount the Fund might reasonably expect to receive for it upon its current sale, in an orderly manner. Appraisal valuations are necessarily subjective and the Adviser's estimate of values may differ materially from amounts actually received upon the disposition of portfolio securities.

Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Adviser, subject to the approval of the Board of Directors. Appraisal valuations are based upon such factors as a portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value.

Most of the Fund's common equity investments are appraised at a multiple of free cash flow generated by the portfolio company in its most recent fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock. Projections of current year free cash flow may be utilized and adjustments for non-recurring items are considered. Multiples utilized are estimated based on the Adviser's experience in the private company marketplace, and are necessarily subjective in nature.

From time to time, portfolio companies are in default of certain covenants in their loan agreements. When the Adviser has a reasonable belief that the portfolio company will be able to restructure the loan agreements to adjust for any defaults, the portfolio company's securities continue to be valued assuming that the company is a going concern. In the event a portfolio company cannot generate adequate cash flow to meet the principal and payments on such indebtedness or is not successful in refinancing the debt upon its maturity, the Fund's investment could be reduced or eliminated through foreclosure on the portfolio company's assets or the portfolio company's reorganization or bankruptcy.

The Fund may also use, when available, third-party transactions in a portfolio company's securities as the basis of valuation (the private market method). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

The fair values of debt securities, which are generally held to maturity, are determined on the basis of the terms of the debt securities and the financial condition of the issuer. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

Because of the inherent uncertainty of the valuation of portfolio securities, which do not have readily ascertainable market values, amounting to \$84.0 million (including no publicly traded securities) and \$72.1 million (including no publicly traded securities) as of September 30, 2008 and December 31, 2007, respectively, the Fund's estimate of fair value may materially differ from the value that would have been used had a ready market existed for the securities. Appraised values do not reflect brokers' fees or other normal selling costs which might become payable on disposition of such investments.

On a daily basis, the Fund adjusts its net asset value for the changes in the value of its publicly held securities and material changes in the value of its private securities and reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various

publications, including Barron's and The Wall Street Journal.

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

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**Escrowed Receivables, at Estimated Fair Value** In May 2007, the Fund sold its interest in The Drilltec Corporation ( Drilltec ). A portion of the proceeds from the sale was placed in a cash escrow account to secure the representations and warranties made to the respective purchasers. The Fund received the final payment of \$0.3 million from The Drilltec Corporation escrow account in May 2008.

**Cash Flows** For purposes of the Statements of Cash Flows, the Fund considers all highly liquid temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. The Fund includes its investing activities within cash flows from operations. The Fund excludes Restricted Cash & Temporary Investments used for purposes of complying with RIC requirements from cash equivalents.

**Income Taxes** The Fund intends to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gains) which is distributed to stockholders. Therefore, no provision for federal income taxes is recorded in the financial statements. The Fund borrows money from time to time to maintain its tax status under the Internal Revenue Code as a RIC. See Note 2 for further discussion of the Fund's RIC borrowings.

In May 2006, the State of Texas enacted a bill that replaced the existing franchise tax with a margin tax. Effective January 1, 2007, the margin tax applies to legal entities conducting business in Texas, including previously non-taxable entities such as limited partnerships and limited liability partnerships. 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.

(4) Fair Value Measurement

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether an instrument is carried at fair value. The Fund adopted SFAS 157 for the quarter ending March 31, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund has categorized all investments recorded at fair value in accordance with SFAS 157 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument's anticipated life. Fair valued assets that are generally included in this category are warrants held in a public company.

Level 3 Inputs reflect management's best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are debt, warrants and/or other equity investments held in a private company. For loan and debt securities, the Fund has performed a yield analysis assuming a hypothetical current sale of the security. 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.

The Fund will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and will record unrealized appreciation when it determines that the fair value is greater than its cost basis.





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Investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

	Fair Value Measurements As of September 30, 2008			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(in thousands)</i>				
Investments, at fair value	\$ 84,041	\$	\$	\$ 84,041

A reconciliation of the fair value of investments utilizing significant unobservable inputs is as follows (in thousands):

<i>(in thousands)</i>	Fair value measurements using unobservable inputs (Level 3)
Fair value as of December 31, 2007	\$ 72,102
Total realized gains	977
Change in unrealized appreciation	(4,123)
Purchases, issuances and settlements, net	15,085
Transfers in (out) of Level 3	
Fair value as of September 30, 2008	\$ 84,041

(5) Related Party Transactions and Agreements

Moore, Clayton & Co., Inc., a Delaware corporation, formed Moore Clayton Capital Advisors, Inc. ( MCCA ) in February 2005 for the purpose of managing the Fund. Moore, Clayton & Co., Inc., either directly or indirectly has a significant ownership interest in the Fund and, additionally, has two common directors. MCCA has no direct ownership in the Fund and has two common directors. MCCA acquired the outstanding stock of the two entities which owned the previous adviser, Equus Capital Management Corporation. Those two entities were individually owned by a current director of the Fund and a previous officer of the Fund who resigned with the change to the current adviser, Moore Clayton Capital Advisors, Inc.

The Fund entered into an investment advisory agreement dated June 30, 2005 (the Advisory Agreement ) with Moore Clayton Capital Advisors, Inc. (the Adviser ). This agreement was renewed in June 2008. Pursuant to the Advisory Agreement, the Adviser performs certain investment advisory services that are necessary for the operation of the Fund. The Adviser receives a base advisory fee at an annual rate of 2% of the net assets of the Fund, paid quarterly in arrears, as well as incentive fees in the following amounts: (i) 20% of the excess, if any, of the Fund's net investment income for a quarter that exceeds a quarterly hurdle rate equal to 2% (8% annualized) of the Fund's net assets, and (ii) 20% of the Fund's net realized capital gain less unrealized capital depreciation paid on an annual basis. The advisory fees that the Fund pays represent the Adviser's primary source of revenue. The Adviser is a wholly-owned subsidiary of MCC Global, NV, an international private equity investment

and advisory firm.

The Advisory Agreement presently continues year-to-year, provided such continuance is approved at least annually by (i) a vote of a majority of the outstanding shares of the Fund, or (ii) a majority of the Independent Directors of the Fund. The Advisory Agreement may be terminated at any time, without the payment of any penalty, by the Board of Directors or the holders of a majority of the Fund's shares on 60 days written notice to the Adviser, and would automatically terminate in the event of its assignment (as defined in the 1940 Act).

The Fund also entered into an administration agreement dated June 30, 2005 ( Administration Agreement ) with Equus Capital Administration Company, Inc. (the Administrator ). This agreement was renewed in June 2008. Pursuant to the Administration Agreement, the Administrator provides (or arranges for suitable third parties to provide) all administrative services necessary for the operation of the Fund. The Fund reimburses the Administrator for the costs and expenses incurred by the Administrator in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements do not exceed \$0.5 million per year.

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The Administration Agreement presently continues year-to-year, provided such continuance is approved at least annually by the Fund's Board of Directors, including a majority of the Independent Directors. The Administration Agreement may be terminated at any time, without the payment of any penalty, by the Board of Directors, or by the Administrator, upon 60 days written notice to the other party, and would automatically terminate in the event of its assignment (as defined in the 1940 Act).

**(6) Contractual Obligations**

The Fund has entered into five contracts under which it expects to have material future commitments, including the Advisory Agreement between the Fund and the Adviser, pursuant to which the Adviser has agreed to serve as the Fund's investment advisor; the Administration Agreement between the Fund and the Administrator, pursuant to which the Administrator has agreed to furnish the Fund with the facilities and administrative services necessary to conduct the Fund's day-to-day operations and to provide managerial assistance on its behalf to portfolio companies to which the Fund is required to provide such assistance. The Advisory Agreement and the Administration Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other, see Note 5.

The remaining two commitments as of September 30, 2008 relate to the Fund's portfolio company investments and are summarized as follows (in thousands):

<b>Portfolio Company</b>	<b>Original Commitment</b>	<b>Remaining Commitment</b>
RP&C International Investments LLC	\$ 11,100	\$ 5,000
HealthSPAC, LLC	5,000	3,227
		\$ 8,227

As compensation for services to the Fund, each Independent Director receives an annual fee of \$20,000 paid quarterly in arrears, a fee of \$2,000 for each meeting of the Board of Directors attended in person, a fee of \$1,000 for participation in each telephonic meeting of the Board and a fee of \$1,000 for each committee meeting attended, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. A quarterly fee of \$2,500 is paid for the Chairman of the Independent Directors and the Chairman of the Audit Committee. An additional one-time fee of \$5,000 was paid to the Chairman of the Independent Directors and the Chairman of the Audit Committee in September 2007, as approved by the Compensation Committee. Effective December 18, 2007, an annual fee of \$15,000 for the Chairman of the Board of Directors was approved.

**(7) Federal Income Tax Matters**

The Fund is required to make distributions of any net taxable investment income on an annual basis, and may elect to distribute or retain net taxable realized capital gains. The Internal Revenue Service approved the Fund's request, effective October 31, 1998, to change its year end for determining capital gains for purposes of Section 4982 of the Internal Revenue Code from December 31 to October 31.

The Fund was not required to make a distribution of ordinary income for 2007 under income tax regulations. The aggregate cost of investments for federal income tax purposes as of December 31, 2007 was \$52.7 million. Such investments had unrealized appreciation of approximately \$23.3 million and unrealized depreciation of \$6.5 million for book purposes, or net unrealized appreciation of approximately \$16.8 million. The Fund had unrealized appreciation of \$26.4 million and unrealized depreciation of approximately \$7.0 million for tax purposes, or net unrealized appreciation of \$19.4 million as of December 31, 2007.



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The Fund adopted FASB Interpretation No. 48 entitled Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, referred to as FIN 48, as of January 1, 2007. FIN 48 clarifies the accounting for uncertain tax positions that may have been taken by an entity. Specifically, FIN 48 prescribes a more-likely-than-not recognition threshold to measure a tax position taken or expected to be taken in a tax return through a two-step process: (1) determining whether it is more likely than not that a tax position will be sustained upon examination by taxing authorities, after all appeals, based upon the technical merits of the position; and (2) measuring to determine the amount of benefit/expense to recognize in the financial statements, assuming taxing authorities have all relevant information concerning the issue. The tax position is measured at the largest amount of benefit/expense that is greater than 50 percent likely of being realized upon ultimate settlement. This pronouncement also specifies how to present a liability for unrecognized tax benefits in a classified balance sheet, but does not change the classification requirements for deferred taxes. Under FIN 48, if a tax position previously failed the more-likely-than-not recognition threshold, it should be recognized in the first subsequent financial reporting period in which the threshold is met. Similarly, a position that no longer meets this recognition threshold should no longer be recognized in the first financial reporting period that the threshold is no longer met.

The Fund is a flow-through, non-tax paying entity; further, the Fund's net operating loss carry-forwards have been exhausted. Based upon an examination of the Fund's tax position, the Fund determined that the aggregate exposure under FIN 48 did not have a material impact on its financial statements at January 1, 2008 or September 30, 2008. Therefore, the Fund has not recorded an adjustment to its financial statements related to the adoption of FIN 48. The Fund will continue to evaluate its tax positions in accordance with FIN 48, and recognize any future impact under FIN 48 as a charge to income in the applicable period in accordance with the standard.

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.

(8) Dividends

On February 19, 2008, the Fund revised its managed distribution policy to pay 10% of the Fund's market value based on the 2007 year-end closing price of \$6.31. In accordance with the revised policy, the Fund announced the declaration of a third quarter dividend of \$0.158 per share on August 7, 2008. A dividend in the amount of \$1.4 million was paid on September 29, 2008 to shareholders of record as of August 25, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by September 22, 2008. The Fund paid \$0.7 million in cash and issued 103,702 additional shares at an effective price of \$6.62 per share. A dividend in the amount of \$1.3 million was paid on June 30, 2008, to shareholders of record as of May 27, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by June 23, 2008. The Fund paid \$0.7 million in cash, and issued 84,727 additional shares of its common stock at an effective price of \$7.04 per share. A dividend in the amount of \$1.3 million was paid on March 31, 2008 to shareholders of record as of February 29, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by March 24, 2008. The Fund paid \$0.7 million in cash, and issued 95,023 additional shares of its common stock at an effective price of \$6.71 per share. The classification of these dividends as between ordinary income, capital gain and return of capital will not be known until December 31, 2008, since any purchase or sale of a portfolio company during the remainder of the year will affect the classification. See Note (11) for the Fund's fourth quarter dividend.

(9) Portfolio Securities

During the nine months ended September 30, 2008, the Fund invested \$8.0 million in new portfolio companies and made follow-on investments of \$11.2 million in several follow-on investments, including \$0.4 million in the form of interest and dividends paid-in-kind or original issue discount/premium amortization.

**Index to Financial Statements****EQUUS TOTAL RETURN, INC.****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2008 AND 2007**

The following table includes significant new and follow-on investments during the nine months ended September 30, 2008 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Infinia Corporation	\$	\$	\$ 5,000	\$	\$ 5,000
Riptide Entertainment, LLC			4,600		4,600
1848 Capital Partners LLC	3,000				3,000
London Bridge Entertainment LLC	2,500				2,500
Trulite, Inc.	1,500				1,500
Nickent Golf, Inc.			1,000	184	1,184
Metic Solutions, PLC	1,000				1,000
HealthSpac, LLC			208		208
Various others				174	174
	\$ 8,000	\$	\$ 10,808	\$ 358	\$ 19,166

During the nine months ended September 30, 2008, the Fund realized net capital gains of \$1.0 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain
ConGlobal Industries Holding, Inc.	Shipping products and services	Control, non-majority	\$ 625
RP&C International Investments LLC	Healthcare	Affiliate	351
Various others			1
			\$ 977

Net unrealized appreciation on investments did not change significantly during the nine months ended September 30, 2008.

During the nine months ended September 30, 2007, the Fund invested \$16.1 million in four new companies and made follow-on investments of \$8.8 million in follow-on investments, including \$0.3 million in the form of interest and dividends paid in kind or original issue discount/premium amortization.

The following table includes significant new and follow-on investments during the nine months ended September 30, 2007 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Nickent Golf, Inc	\$ 8,000	\$	\$ 2,000	\$	\$ 10,000
Equus Media Development Company, LLC	5,000				5,000
Riptide Entertainment, LLC			3,835		3,835
Infinia Corporation	3,000				3,000
RP&C International Investments LLC			2,009		2,009

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HealthSpac, LLC			525		525
ConGlobal Industries Holdings, Inc.				273	273
Equus Media Finance Company, LLC	100				100
Various others				208	208
		\$ 16,100	\$	\$ 8,369	\$ 481
					\$ 24,950

Index to Financial StatementsEQUUS TOTAL RETURN, INC.NOTES TO FINANCIAL STATEMENTSSEPTEMBER 30, 2008 AND 2007

During the nine months ended September 30, 2007, the Fund realized net capital gains of \$5.3 million, including the following significant transactions (in thousands):

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type</b>	<b>Realized Gain/ (Loss)</b>
The Drilltec Corporation	Residential building products	Control	3,829
Champion Windows	Residential building products	Control	1,403
Cedar Lodge Holdings, Inc.	Real Estate	Control	608
Alenco Window Holdings, LLC	Residential building products	Control	165
Equicom	Telecommunications	Control	136
ConGlobal Industries Holding, Inc.	Shipping products and services	Control, non-majority	58
Turf Grass Holdings, Inc.	Residential building products	Control	(960)
Various others			19
			\$ 5,258

Net unrealized appreciation on investments decreased by \$8.0 million during the nine months ended September 30, 2007, from a net unrealized appreciation of \$9.3 million to a net unrealized appreciation of \$1.3 million. Such decrease in appreciation resulted from a transfer of \$3.6 million in net unrealized appreciation to net realized appreciation for sale of The Drilltec Corporation. The decrease in appreciation was also a result of the decline in estimated fair market values of ConGlobal Industries Holding, Inc. and Pallet One, resulting from a decline in operations for the period.

(10) Recent Accounting Pronouncements

**Fair Value Measurements** On February 12, 2008, *FASB Staff Position No. FAS 157-2 Effective Date of FASB No. 157*, or FSP 157-2 was issued, which deferred the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, with early adoption permitted in certain cases. We deferred the adoption of SFAS 157 for our nonfinancial assets and liabilities. We are assessing the potential impact that adoption of SFAS 157 for our nonfinancial assets and liabilities may have on our financial statements.

On October 10, 2008, *FASB Staff Position No. 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, or FSP 157-3, was issued. FSP 157-3 provides an illustrative example of how to determine the fair value of a financial asset in an inactive market. The FSP does not change the fair value measurement principles set forth in SFAS 157. Since adopting SFAS 157 in January 2008, our practices for determining the fair value of our investment portfolio have been, and continue to be, consistent with the guidance provided in the example in FSP 157-3. Therefore, our adoption of FSP 157-3 did not affect our practices for determining the fair value of our investment portfolio and does not have a material effect on our financial position or results of operations.

**Fair Value Option for Financial Assets and Financial Liabilities** In February 2007, the Financial Accounting Standards Board issued *Statement of Financial Accounting Standards No. 159 The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS 159. Among other requirements, SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 was effective for the first fiscal year that begins after November 15, 2008. Based upon our review, we have elected not to adopt SFAS 159 for financial liabilities that were in our portfolio as of September 30, 2008. However, we may elect to apply SFAS 159 to future financial liabilities. The impact on our financials from the potential application of SFAS 159 to a future liability depends upon the attributes of the specific financial liability.

(11) Subsequent Events



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On November 10, 2008, the Fund announced a dividend of \$0.158 per share for the fourth quarter of 2008. The dividend will be payable on December 22, 2008 in shares of common stock.

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## Index to Financial Statements

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

#### Overview

Equus Total Return, Inc. is a business development company which invests in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. The Fund made four new investments other than follow-on investments during the nine months ended September 30, 2008 and 2007.

The valuation of the Fund's investments is the most significant area of judgment impacting the financial statements. The Fund's portfolio investments are valued at estimates of fair value, with the net change in unrealized appreciation or depreciation included in the determination of net assets. Almost all of the long-term investments are in privately-held or restricted securities, the valuation of which is necessarily subjective. Actual values may differ materially from the Fund's estimated fair value. Portfolio valuations are determined quarterly by the Adviser, subject to the approval of the Board of Directors, and are based on a number of relevant factors.

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

The Fund derives its cash flow from interest and dividends received and sales of securities from its investment portfolio. The Fund pays certain advisory fees to the Adviser, administrative fees to the Administrator and interest expense on its existing debt. The Fund also spends its cash on new investments, or follow-on investments which may be required by certain portfolio companies. Because the investments are illiquid, the Fund utilizes leverage to provide the required funds, and the leverage is then repaid from the sale of portfolio securities.

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

#### Significant Accounting Policies

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

**Use of Estimates** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although management believes the estimates and assumptions used in preparing these interim financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates.

**Valuation of Investments** Portfolio investments are carried at fair value with the net change in unrealized appreciation or depreciation included in the determination of net assets. Valuations of portfolio securities are performed in accordance with accounting principles generally accepted in the United States of America and the financial reporting policies of the Securities and Exchange Commission ( SEC ). The applicable methods prescribed by such principles and policies are described below:

*Publicly-traded portfolio securities* Investments in companies whose securities are publicly traded are valued at their quoted market price at the close of business on the valuation date, less a discount to reflect the estimated effects of restrictions on the sale of such securities ( Valuation Discount ), if applicable.

*Privately-held portfolio securities* The fair value of investments for which no market exists is determined on the basis of procedures established in good faith by the Board of Directors of the Fund. As a general principle, the current fair value of an investment would be the amount the Fund might reasonably expect to receive for it upon its current sale, in an orderly manner. Appraisal valuations are necessarily subjective and the Adviser's estimate of values may differ materially from amounts actually received upon the disposition of portfolio securities.

Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Adviser, subject to the approval of the Board of Directors. Appraisal valuations are

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based upon such factors as a portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value.

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Most of the Fund's common equity investments are appraised at a multiple of free cash flow generated by the portfolio company in its most recent fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock. Projections of current year free cash flow may be utilized and adjustments for non-recurring items are considered. Multiples utilized are estimated based on the Adviser's experience in the private company marketplace, and are necessarily subjective in nature.

From time to time, portfolio companies are in default of certain covenants in their loan agreements. When the Adviser has a reasonable belief that the portfolio company will be able to restructure the loan agreements to adjust for any defaults, the portfolio company's securities continue to be valued assuming that the company is a going concern. In the event a portfolio company cannot generate adequate cash flow to meet the principal and payments on such indebtedness or is not successful in refinancing the debt upon its maturity, the Fund's investment could be reduced or eliminated through foreclosure on the portfolio company's assets or the portfolio company's reorganization or bankruptcy.

The Fund may also use, when available, third-party transactions in a portfolio company's securities as the basis of valuation (the private market method). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

The fair values of debt securities, which are generally held to maturity, are determined on the basis of the terms of the debt securities and the financial condition of the issuer. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

Because of the inherent uncertainty of the valuation of portfolio securities, which do not have readily ascertainable market values, amounting to \$86.2 million (including no publicly traded securities) and \$72.1 million (including no publicly traded securities) as of September 30, 2008 and December 31, 2007, respectively, the Fund's estimate of fair value may materially differ from the value that would have been used had a ready market existed for the securities. Appraised values do not reflect brokers' fees or other normal selling costs which might become payable on disposition of such investments.

On a daily basis, the Fund adjusts its net asset value for the changes in the value of its publicly held securities and material changes in the value of its private securities and reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including Barron's and The Wall Street Journal.

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

Because of the nature and size of the portfolio investments, the Fund may periodically borrow funds to make qualifying investments to maintain its tax status as a RIC. During the nine months ended September 30, 2008 and 2007, the Fund borrowed such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on its net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends.

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.

## **Current Market Conditions**

During the quarter ended September 30, 2008, the state of the economy in the U.S. and abroad continued to deteriorate to what many believe is a recession, which could be long-term. Banks and others in the financial services industry have continued to report significant write-downs in fair value of their assets. The failure of a number of banks and investment companies, distressed mergers and acquisitions, and the government take-over of the nation's two largest government-sponsored mortgage companies lead to the passage of the \$700 billion *Emergency Economic Stabilization of 2008* in early October 2008. In addition, the stock market has declined significantly, with both the S&P 500 and the NYSE (on which EQS trades), declining over 30%. These events have significantly constrained the availability of debt and equity capital for the market as

a whole, and the financial services sector in particular.

These and other events have also lead to rising unemployment, deteriorating consumer confidence and a general reduction in spending by both consumers and business, adversely affecting a number of industries including those in which the Fund's portfolio companies operate. Further, consistent with other companies in the financial services sector, the Fund has been affected adversely by many of these events. Between June 30, 2008 and November 13, 2008, the closing price of the Fund's common stock has declined approximately 30% and is trading at a 55% discount.

### **Liquidity and Capital Resources**

There are several factors that may materially affect the Fund's liquidity during the reasonably foreseeable future. The Fund views this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e.*, the period through September 30, 2009.

Management is currently evaluating the impact of current market conditions on its portfolio company valuations and their ability to provide current income. Management has followed valuation techniques in a consistent manner; however, it is cognizant of current market conditions that might effect future valuations of portfolio securities. If necessary to meet the Fund's investment commitments of \$8.2 million, the Fund has a secured \$7.5 million revolving line of credit facility with Amegy Bank. The Fund has not yet borrowed under this facility. The Fund believes that its 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.

While the Fund seeks to pay dividends on a quarterly basis, the Board of Directors has approved the payment of these dividends to be in the Fund's common stock until further notice; thus, the future dividends should not affect the Fund's liquidity.

As previously noted, the Fund may periodically borrow funds to make qualifying investments to maintain its tax status as a RIC. During the nine months ended September 30, 2008 and 2007, the Fund borrowed such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future.

Investors should not place undue reliance on the Fund's forward-looking statements regarding income and liabilities, which are current only as to the date hereof. The Fund undertakes no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

**Index to Financial Statements****Results of Operations****Investment Income and Expense**

Net investment loss after all expenses was \$0.7 and \$1.0 for the nine months ended September 30, 2008 and 2007 respectively and \$0.6 and \$0.3 for the three months ended September 30, 2008 and 2007, respectively. Total income from portfolio securities was \$2.0 million and \$2.2 million for the nine months ended September 30, 2008 and 2007 respectively and \$0.3 million and \$0.8 million for the three months ended September 30, 2008 and 2007 respectively. The net investment loss generated at September 30, 2008 compared to 2007, is due primarily to the decline in total income from portfolio securities for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, along with the offering costs incurred at September 30, 2007 and declining incentive fees.

Interest from temporary cash investments decreased to \$0.5 million for the nine months ended September 30, 2008 from \$1.4 million for the nine months ended September 30, 2007, and to \$0.1 million for the three months ended September 30, 2008 from \$0.4 million for the three months ended September 30, 2007. The cash in temporary investments (excluding the margin account) decreased \$21.9 million to \$9.0 million as of September 30, 2008, and a corresponding decrease of \$17.2 million for the nine months ended September, 2007, primarily due to the increase in new and follow-on investments.

The Adviser receives management fee compensation at an annual rate of 2% of the net assets of the Fund paid quarterly in arrears. Such fees increased by \$0.3 million for the nine months ended September 30, 2008 and \$0.2 million for the three months ended September 2008.

Incentive fees are calculated as follows: (i) 20% of the excess, if any, of the Fund's net investment income for a quarter that exceeds a quarterly hurdle rate equal to 2% (8% annualized) of the Fund's net assets, and (ii) 20% of the Fund's net realized capital gain less unrealized capital depreciation paid on an annual basis. The proceeds of any sale are compared to the fair market valuation of the Fund's portfolio companies at March 31, 2005. Incentive fee expense decreased by \$1.1 million for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007, and remained relatively unchanged the three months ended September 30, 2008 as compared to the three months ended September 30, 2007.

Professional fees remained relatively constant for the three and nine months ended September 30, 2008, as compared to the three and nine months ended September 30, 2007.

Administrative fees were unchanged for the three and nine months ended September 30, 2008 and 2007, respectively. The Fund reimburses the Administrator, ECAC, for the costs and expenses incurred in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements do not exceed \$450,000 per year. The administrator receives \$112,500 per quarter.

**Realized Gains and Losses on Sales of Portfolio Securities**

During the nine months ended September 30, 2008, the Fund realized net capital gains of \$1.0 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain
ConGlobal Industries Holding, Inc.	Shipping products and services	Control, non-majority	\$ 625
RP&C International Investments LLC	Healthcare	Affiliate	351
Various others			1
			\$ 977

During the three months ended September 30, 2008, the Fund had no realized net capital gains.

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During the nine months ended September 30, 2007, the Fund realized net capital gains of \$5.3 million, including the following significant transactions (in thousands):

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type</b>	<b>Realized Gain/ (Loss)</b>
The Drilltec Corporation	Residential building products	Control	\$ 3,829
Champion Window Holdings, Inc.	Residential building products	Control	1,403
Cedar Lodge Holdings, Inc.	Real Estate	Control	608
Alenco Window Holdings, LLC	Residential building products	Control	165
Equicom, Inc.	Telecommunications	Control	136
ConGlobal Industries Holding, Inc.	Shipping products and services	Control, non-majority	58
Turf Grass Holdings, Inc.	Residential building products	Control	(960)
Various others			19
			\$ 5,258

During the three months ended September 30, 2007, the Fund realized net capital gains of \$0.1 million, including the following significant transactions (in thousands):

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type</b>	<b>Realized Gain/ (Loss)</b>
Equicom, Inc.	Telecommunications	Control	136
The Drilltec Corporation	Real Estate	Control	82
Cedar Lodge Holdings, Inc.	Residential building products	Control	\$ (120)
Various others			8
			\$ 106

**Changes in Unrealized Appreciation/Depreciation of Portfolio Securities**

Net unrealized appreciation on investments decreased by \$4.1 million during the nine months ended September 30, 2008, from a net unrealized appreciation of \$16.8 million to a net unrealized appreciation of \$12.7 million. The decrease in appreciation was primarily a result of the decline in estimated fair market value of Creekstone Florida Holdings, LLC, resulting from a decline in the real estate market.

Net unrealized appreciation on investments decreased by \$8.0 million during the nine months ended September 30, 2007, from a net unrealized appreciation of \$9.3 million to a net unrealized appreciation of \$1.3 million. Such decrease in appreciation resulted from a transfer of \$3.6 million in net unrealized appreciation to net realized appreciation for sale of The Drilltec Corporation. The decrease in appreciation was also a result of the decline in estimated fair market values of ConGlobal Industries Holding, Inc. and Pallet One, resulting from a decline in operations for the period.

**Dividends**

On February 19, 2008, the Fund revised its managed distribution policy to pay 10% of the Fund's market value based on the 2007 year-end closing price of \$6.31. In accordance with this revised policy, the Fund announced the declaration of a third quarter dividend of \$0.158 per share on August 7, 2008. A dividend in the amount of \$1.4 million was paid on September 29, 2008 to shareholders of record as of August 25, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by September 22, 2008. The Fund paid \$0.7 million in cash and issued 103,702 additional shares at an effective price of \$6.62 per share. A dividend in the amount of \$1.3 million was paid on June 30, 2008, to shareholders of record as of May 27, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by June 23, 2008. The Fund paid \$0.7 million in

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cash, and issued 84,727 additional shares of its common stock at an effective price of \$7.04 per share. A dividend in the amount of \$1.3 million was paid on March 31, 2008 to shareholders of record as of February 29, 2008. The dividend was payable in shares of common stock or in cash by specific election of the shareholders, and such election was made by March 24, 2008. The Fund paid \$0.7 million in cash, and issued 95,023 additional shares of its common stock at an effective price of \$6.71 per share. The classification of these dividends as between ordinary income, capital gain and return of capital will not be known until December 31, 2008, since any purchase or sale of a portfolio company during the remainder of the year will affect the classification.



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The Fund announced the declaration of a \$0.125 dividend payable on September 24, 2007, to shareholders of record as of the close of business on August 21, 2007. The Fund paid \$502,172 in cash and issued 73,069 additional shares of common stock at \$7.85 per share on September 24, 2007, in payment of such dividend. The Fund paid a \$0.125 dividend for shareholders of record as of May 21, 2007. The Fund paid \$0.6 million in cash and issued 48,930 additional shares of common stock at \$8.81 per share on June 25, 2007, in payment of such dividend. The Fund paid a \$0.125 dividend for shareholders of record as of the close of business on February 26, 2007 on March 30, 2007. The Fund paid \$0.6 million in cash and issued 52,650 additional shares of common stock at \$8.63 per share, in payment of such dividend.

**Portfolio Investments**

The following table includes significant new and follow-on investments during the nine months ended September 30, 2008 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Infinia Corporation	\$	\$	\$ 5,000	\$	\$ 5,000
Riptide Entertainment, LLC			4,600		4,600
1848 Capital Partners LLC	3,000				3,000
London Bridge Entertainment LLC	2,500				2,500
Trulite, Inc.	1,500				1,500
Nickent Golf, Inc.			1,000	184	1,184
Metic Solutions, PLC	1,000				1,000
HealthSpac, LLC			208		208
Various others				174	174
	\$ 8,000	\$	\$ 10,808	\$ 358	\$ 19,166

The following table includes significant new and follow-on investments during the nine months ended September 30, 2007 (in thousands):

Portfolio Company	New		Follow-On		Total
	Cash	Noncash	Cash	Noncash	
Nickent Golf, Inc	\$ 8,000	\$	\$ 2,000	\$	\$ 10,000
Equus Media Development Company, LLC	5,000				5,000
Riptide Entertainment, LLC			3,835		3,835
Infinia Corporation	3,000				3,000
RP&C International Investments LLC			2,009		2,009
HealthSpac, LLC			525		525
ConGlobal Industries Holdings, Inc.				273	273
Equus Media Finance Company, LLC	100				100
Various others				208	208
	\$ 16,100	\$	\$ 8,369	\$ 481	\$ 24,950

**Subsequent Events**

On November 10, 2008, the Fund announced a dividend of \$0.158 per share for the fourth quarter of 2008. The dividend will be payable on December 22, 2008 in shares of common stock.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

The Fund is 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. The Fund does not use derivative financial instruments to mitigate any of

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these risks. The return on investments is generally not affected by foreign currency fluctuations.

The Fund's 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 impact 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. Their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

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**Index to Financial Statements**

A major portion of the Fund's 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.

The Fund is classified as a non-diversified investment company under the Investment Company Act, which means the Fund is not limited in the proportion of its assets that may be invested in the securities of a single user. The value of one segment called Alternative Energy includes one portfolio company and was 27.5% of the net asset value and 30.9% of the Fund's investments in portfolio company securities (at fair value) as of September 30, 2008. 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 the Fund's common stock to a greater extent than would be the case if the Fund were a diversified company holding numerous investments.

**Item 4. Controls and Procedures**

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

The Fund's management, with the participation of the Fund's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operations of the Fund's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2008. Based on their evaluation, the Fund's Chief Executive Officer and Chief Financial Officer concluded that the Fund's disclosure controls and procedures were effective at a reasonable assurance level. There has been no change in the Fund's internal control over financial reporting during the quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

**Part II. Other Information**

**Item 6. Exhibits**

3. Articles of Incorporation and by-laws

- (a) Restated Certificate of Incorporation of the Fund, as amended. [Incorporated by reference to Exhibit 3(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007]
- (b) Certificate of Merger dated June 30, 1993, between the Fund and Equus Investments Incorporated [Incorporated by reference to Exhibit 3(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007]
- (c) Amended and Restated Bylaws of the Fund. [Incorporated by reference to Exhibit 3(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007]

10. Material Contracts

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- (a) Investment Advisory Agreement dated June 30, 2005, between the Fund and Moore, Clayton Capital Advisors, Inc. [Incorporated by reference to Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005]
  
- (b) Administration Agreement dated June 30, 2005, between the Fund and Equus Capital Administration Company. [Incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005]
  
- (c) Safekeeping Agreement between the Fund and The Frost National Bank dated March 15, 2004. [Incorporated by reference to Exhibit 10(f) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004]

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- (d) Form of Indemnification Agreement between the Fund and its directors and certain officers. [Incorporated by reference to Exhibit 10(g) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004]
  - (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) Joint Code of Ethics of the Fund and Moore Clayton Capital Advisors, Inc. (Rule 17j-1) [Incorporated by reference to Exhibit 3(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007]
  - (g) Revolving Credit Note between the Fund and Amegy Bank National Association dated August 13, 2008 [filed herewith]
  - (h) Pledge and Security Agreement between the Fund and Amegy Bank National Association dated August 13, 2008 [filed herewith]
31. Rule 13a-14(a)/15d-14(a) Certifications
- 1. Certification by Chairman and Chief Executive Officer
  - 2. Certification by Chief Financial Officer
32. Section 1350 Certifications
- 1. Certification by Chairman and Chief Executive Officer
  - 2. Certification by Chief Financial Officer

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SIGNATURE

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

EQUUS TOTAL RETURN, INC.

Date: November 14, 2008

/s/ Kenneth I. Denos  
**Kenneth I. Denos**  
**Chief Executive Officer**