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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)**

For the year ended December 31, 2007

or

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

For the transition period from _____ to _____

Commission File Number 0-19509

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0345915**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2727 Allen Parkway, 13th Floor, Houston, Texas	**77019**
(Address of principal executive offices)	**(Zip Code)**

(713) 529-0900

Registrant's telephone number, including area code:

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

Title of each class	**Name of each exchange on which registered**
Common Stock	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

Approximate aggregate market value of common stock held by non-affiliates of the registrant: $41,715,378 computed on the basis of $6.51 per share, closing price of the common stock on the New York Stock Exchange on March 28, 2008. For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates. There were 8,401,179 shares of the registrant's common stock, $.001 par value, outstanding as of March 28, 2008. The net asset value of a share as of December 31, 2007 was $12.286.

Portions of the Proxy Statement (to be filed) for the 2008 Annual Shareholder's meeting are incorporated by reference in Parts II and III.

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PART I

Item 1. *Business*

Equus Total Return, Inc. (the "Fund" or "EQS"), formerly Equus II Incorporated, is a business development company that provides comprehensive financing solutions for companies in industries that it believes will benefit from significant social and demographic trends. The Fund's registered investment adviser, Moore, Clayton Capital Advisors, Inc. ("the Adviser"), manages its portfolio and provides access to investment opportunities throughout the United States and internationally. The Adviser is a wholly owned subsidiary of MCC Global ("MCC"), an international investment advisory firm that holds 15.2% of the Fund's common stock as of December 31, 2007.

The Fund's investment objective is to generate current investment income and long-term capital gains by investing in the debt and equity securities of small capitalization companies, which it defines as companies with a total enterprise value of between $15.0 million and $75.0 million. The Adviser has indicated that it generally intends to invest its assets in sectors that are, and which it believes will continue to be, driven by significant social and demographic trends, including an aging population, increased leisure time, the globalization of business and widespread concern about the environment and increasingly scarce energy resources. As its investment adviser, the Adviser intends to implement a total return-oriented investment strategy, which will include investments in a broad mix of equity and debt securities. Reflecting its change to a total return investment strategy, the Fund expects that its investments in debt and equity securities will generate both current income and capital gains and should enable it to maintain a consistent dividend policy.

The Fund believes its investment opportunities and, consequently, its returns, are limited currently by the relatively small size of it portfolio and investments. The Fund's current portfolio size limits it to relatively modest investments (averaging $6.0 million through December 31, 2007).

The Fund is a closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. In order to remain a business development company it must meet certain specified requirements under the 1940 Act, including investing at least 70% of its assets in eligible portfolio companies and limiting the amount of leverage it incurs. The Fund is also a regulated investment company, or RIC, under Subchapter M of the U.S. Internal Revenue Code of 1986, or the Code. As such, it is not required to pay corporate-level income tax on the Fund's investment income. The Fund intends to maintain its RIC status, which will require that it qualify annually as a RIC by meeting certain specified requirements. For a discussion of these requirements necessary to maintain its status as a business development company and as a RIC, please see "Regulation as a Business Development Company – General" and "Certain U.S. Federal Income Tax Considerations – Taxation as a Regulated Investment Company," respectively.

The Adviser and Equus Capital Administration Company, Inc., or the Administrator, and their respective officers and directors and the officers of the Fund are collectively referred to herein as "Management." The Fund's principal office is located at 2727 Allen Parkway, 13th Floor, Houston, Texas, 77019, and the telephone number is (713) 529-0900. The Fund's corporate website is located at *www.equuscap.com*. The Fund makes available free of charge on its website the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished to the Securities and Exchange Commission ("SEC"). The Fund's shares are traded on The New York Stock Exchange under the ticker symbol "EQS".

The Adviser and MCC

The Fund intends to build on the success it has had since its founding through its investment advisory relationship with the Adviser. The Adviser was formed by Moore, Clayton & Co., Inc. ("MCCI"), a

wholly-owned subsidiary of MCC, for the purpose of managing the Fund and assumed responsibility as its investment adviser on June 30, 2005. The Adviser includes a mix of investment professionals from MCC and professionals retained from Equus Capital Management Corporation, or ECMC, its previous investment adviser. Among the Adviser's eight dedicated investment professionals is Sam P. Douglass, the founder and former CEO and chairman of Equus and ECMC and Paula Douglass, Vice President of ECMC. When the Adviser assumed its role as its investment adviser, it also acquired the investment management infrastructure of ECMC, which facilitated the transition between investment advisers, provided continuity in its relationships with portfolio companies and maintained its market presence.

In April 2007, MCCI became a wholly-owned subsidiary of MCC when it was acquired by IFEX Innovation Finance & Equity Exchange NV, a Dutch corporation (*naamloze vennootschap*) listed on the Frankfurt Stock Exchange. IFEX then changed its name to MCC Global NV. Immediately following the acquisition of MCCI, the former shareholders of MCCI held, collectively, 83% of the outstanding ordinary shares of IFEX.

The Fund's board of directors selected the Adviser as its investment adviser in part to obtain access to the potential deal flow that it believes MCC may generate from its network of industry contacts. MCC is an international financial advisory firm, the core business of which was established in 1999. MCC has offices in London, Houston, New York, Salt Lake City, and San Francisco. MCC advises clients in structuring financial transactions which often involve investments in, and acquisitions of, growth-oriented companies. In particular, MCC seeks to capitalize on investment opportunities presented by current and anticipated demographic trends worldwide. MCC currently advises a variety of companies worldwide, providing them with introductions and commercial opportunities through a global network of professionals, financial intermediaries and business executives. MCC advises its clients on certain transactional and strategic alternatives, including joint ventures, mergers and acquisitions, divestitures, privatizations, restructurings and recapitalizations.

The principal stockholders of MCC are Anthony R. Moore, a member of the Fund's board of directors, and Sharon Clayton. MCC also has an advisory board consisting of senior executives with extensive international operating and financial experience in MCC's target industries. As of December 31, 2007, these executives were complemented by 30 other employees and professional contract personnel. The Fund believes that the Adviser and, indirectly, the Fund, benefit from access to MCC's network of professionals, contacts and commercial opportunities.

The Fund's Investment Objective

The Fund's investment objective is to maximize the total return to stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of small capitalization, privately owned companies. The Fund expects the Adviser to focus its investments in industries that are, and that it believes will continue to be, driven by significant social and demographic trends, including an aging population, increased leisure time, the globalization of business and widespread concern about the environment and increasingly scarce energy resources. Accordingly, the Fund expects to invest in businesses such as medical technology and services directed toward an aging population, real estate developments positioned to benefit from an increase in the number of retirees, leisure time and family entertainment industries and subsets of the energy sector developing renewable and proven alternative sources of energy.

Investment Strategy

As described under "—The Fund's Investment Objective" above, the Fund has adopted a total return investment objective and the Adviser is now implementing an investment strategy consistent with this objective. 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. As such, it invests primarily in privately owned companies and will consider a wide range of potential growth investments in this market. The Fund's primary aim is to identify and acquire only those equity securities

that meet its criteria for selling at reasonable prices. With respect to income investments, the Adviser seeks to purchase debt instruments that it expects to generate consistent interest income for the Fund as well as long-term capital appreciation through the exercise and sale of warrants received in connection with such debt financing.

The Fund usually negotiates its investments in portfolio company securities directly with the owner or issuer of the securities acquired. The Fund attempts to reduce certain risks inherent in private equity-oriented investments by investing in a portfolio of companies involved in a variety of different industries. However, it expects that such companies and industries will benefit from the significant demographic and social trends previously discussed.

The Fund limits its initial investment in any portfolio company to no more than 15% of the Fund's net assets at the date of initial investment. However, its investment in a particular portfolio company may exceed this limitation due to follow-on investments or increases in the fair value of such investments.

The Fund seeks to invest in a portfolio company with co-investors. Other investment participants may include management of the portfolio company, other business development companies, small business investment companies, other institutional or individual investors or venture capital groups. In connection with its equity investments, the Fund and its co-investors typically comprise a controlling or substantial interest in the portfolio companies.

Investment Criteria

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

- *Competent management.* The Fund generally requires that its companies have an experienced management team and seek to design compensation arrangements that align the interests of the portfolio company's management with those of the Fund.

- *Substantial target market.* The Fund focuses on companies whose products or services have favorable growth potential. It looks for companies with strong competitive positions in their respective markets.

- *History or expectation of profitability.* The Fund looks for companies that either have been profitable historically or have a reasonable expectation that they can become profitable as a result of the proposed investment.

- *Substantial equity and management participation.* The Fund looks for companies that will permit it and its co-investors to take a substantial investment position in the company and to have representation on the board of directors of the company.

- *Plausible exit and potential for appreciation.* The Fund expects to dispose of its portfolio securities through public rights offerings or negotiated private sales.

Investment Operations

The investment operations of the Fund consist principally of the following basic activities:

Investment Selection. The Fund expects that many of its investment opportunities will come from Management, other private equity investors, members of the board of directors, direct approaches from prospective portfolio companies as well as from referrals from banks, lawyers, accountants and members of the financial community. It supplements these sources through access to the relationships and network of MCC. Subject to the approval of its board of directors, the Fund may compensate certain referrals with finder's fees to the extent permissible under applicable law and consistent with industry practice.

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

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

Structuring Investments. The Fund typically negotiates investments in private transactions directly with the owner or issuer of the securities acquired. The Adviser structures the terms of a proposed investment, including the purchase price, the type of security to be purchased and the future involvement of the Fund in the portfolio company's business. The Adviser seeks to structure the terms of the investment to provide for the capital needs of the portfolio company while maximizing the Fund's opportunities for current income and capital appreciation.

Providing Management Assistance and Monitoring of Investments. Successful private equity investments typically require active monitoring of, and significant participation in, major business decisions of portfolio companies. In many cases, officers of the Fund serve as members of the boards of directors of portfolio companies. Such management assistance is required of a business development company under the 1940 Act. The Fund seeks to provide guidance and management assistance with respect to such matters as capital structure, budgets, profit goals, diversification strategy, financing requirements, management additions or replacements and development of a public or private market for the securities of the portfolio company. In connection with their service as directors of portfolio companies, officers and directors of the Fund may receive and retain directors' fees or reimbursement for expenses incurred, and may participate in incentive stock option plans for non-employee directors, if any. When necessary and as requested by any portfolio company, the Adviser, on behalf of the Fund, may also assign staff professionals with financial or management expertise to assist portfolio company management on specific problems.

Follow-On Investments

Following its initial investment in a portfolio company, the company may request that the Fund make follow-on investments in the company. Follow-on investments may be made to exercise warrants or other preferential rights granted to the Fund or otherwise to increase its position in a successful or promising portfolio company. The portfolio company also may request that the Fund provide additional equity or loans needed to fully implement its business plans to develop a new line of business or to recover from unexpected business problems. The Fund may make follow-on investments in portfolio companies from cash on hand or borrow all or a portion of the funds required. If the Fund is unable to make follow-on investments due to lack of available capital, the portfolio company in need of the investment may be negatively impacted and the Fund's equity interest in the portfolio company may be reduced.

Disposition of Investments

The method and timing of the disposition of the Fund's investments in portfolio companies is critical to its ability to realize capital gains and minimize capital losses. The Fund may dispose of its portfolio securities

through a variety of transactions, including sales of portfolio securities in underwritten public rights offerings, public sales and negotiated private sales, either to the portfolio company itself or to other investors. In addition, the Fund may distribute its portfolio securities in-kind to its stockholders. In structuring its investments, the Fund endeavors to reach an understanding with the management of the prospective portfolio company as to the appropriate method and timing of the disposition of the investment. In some cases, the Fund seeks registration rights for its portfolio securities at the time of investment which typically provide that the portfolio company will bear the cost of registration. To the extent not paid by the portfolio company, the Fund typically bears the costs of disposing of its portfolio investments.

Current Portfolio Companies

For a description of the Fund's current portfolio company investments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations–Portfolio Investments."

Valuation

On at least a quarterly basis, the Adviser values the Fund's portfolio investments. These valuations are subject to the approval and adoption of the board of directors. Valuations of the Fund's portfolio securities at "fair value" are performed in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

Generally, cost is the primary factor used to determine fair value until a significant development affecting the portfolio company (such as updated financial results or a change in general market conditions) provides a basis for an adjustment to the valuation. The Fund bases adjustments upon such factors as the portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the Fund may base a portfolio company's fair value upon the company's estimated liquidation value. Fair valuations are necessarily subjective, and the Adviser's estimate of fair value may differ materially from amounts actually received upon the disposition of its portfolio securities. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in a significant and rapid change in its value.

The Fund may also use, when available, third-party transactions in a portfolio company's securities as the basis for its valuation. The Fund uses this method only with respect to completed transactions or firm offers made by sophisticated, independent investors.

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

The Fund's board of directors reviews the valuation policies on a quarterly basis to determine their appropriateness and reserves the right to hire independent valuation firms to review the Adviser's valuation methodology or to conduct an independent valuation.

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. The Fund's weekly and daily net asset values appear in various publications, including *Barron's* and *The Wall Street Journal*.

Competition

The Fund competes with a large number of public and private equity and mezzanine funds and other financing sources, including traditional financial services companies such as finance companies and commercial banks. Many of its competitors are substantially larger and have considerably greater financial, technical and marketing resources than it does. The Fund's competitors may have a lower cost of funds and many have access to funding sources that are not available to it. In addition, certain of its competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. In addition, many of the Fund's competitors are not subject to the regulatory restrictions that the 1940 Act imposes on it as a business development company.

There is no assurance that the competitive pressures the Fund faces will not have a material adverse effect on its business, financial condition and results of operations. In addition, because of this competition, the Fund may be foreclosed from taking advantage of attractive investment opportunities and may not be able to identify and make investments that satisfy its investment objectives or meet its investment goals.

Properties

The Fund's principal executive offices are located at 2727 Allen Parkway, 13th Floor, Houston, Texas 77019. The Fund believes that its office facilities are suitable and adequate for its operations as currently conducted and contemplated.

Legal Proceedings

Neither the Fund nor the Adviser is currently subject to any material legal proceedings.

Business Development Company Requirements

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

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

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

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

The Fund may not change the nature of its business so as to cease to be, or withdraw its election as, a business development company unless authorized by vote of the holders of the majority of its outstanding voting securities, as defined in the 1940 Act.

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

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

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

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

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

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

Regulated Investment Company Tax Status

The Fund operates to qualify as a regulated investment company under Subchapter M of the Code. If the Fund qualifies as a regulated investment company and annually distribute to its stockholders in a timely manner at least 90% of its investment company taxable income, the Fund will not be subject to federal income tax on the portion of its taxable income and capital gains the Fund distributes to its stockholders. Taxable income generally differs from net income as defined by accounting principles generally accepted in the United States of America due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation.

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

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

If the Fund fails to satisfy the 90% distribution requirement or otherwise fail to qualify as a regulated investment company in any taxable year, it will be subject to tax in such year on all of its taxable income, regardless of whether the Fund makes any distribution to its stockholders. In addition, in that case, all of the Fund's distributions to its stockholders will be characterized as ordinary income (to the extent of its current and accumulated earnings and profits). The Fund has distributed and currently intends to distribute sufficient dividends to eliminate its investment company taxable income.

Advisory and Administration Fees

The Adviser. The Adviser manages the Fund's portfolio investments pursuant to an Advisory Agreement. The Adviser's services include, among other services:

- Determining the composition of the portfolio of the Fund, the nature and timing of the changes therein, and the manner of implementing such changes;
- Identifying, evaluating, and negotiating the structure of the investments made by the Fund;
- Monitoring the performance of, and managing the Fund's investments;
- Determining the securities and other assets that the Fund will purchase, retain, or sell and the terms on which any such securities are purchased and sold;
- Arranging for the disposition of investments for the Fund; and
- Other specified services.

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 Fund is responsible for the costs and expenses of the Fund's business, operations, and investments. These costs and expenses, include among other items:

- Administration fees and expenses payable under the Administration Agreement;
- Costs of proxy solicitation and meetings of stockholders and the Board;
- Charges and expenses of the Fund's custodian, administrator, and transfer and dividend disbursing agent;
- Compensation and expenses of the Fund's independent directors;
- Legal and auditing fees and expenses; and
- Subject to Board approval, certain other reasonable costs and expenses directly allocable and identifiable to the Fund or its business or investments.

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 Administrator. The Administrator manages the Fund's administrative and business operations pursuant to an Administration Agreement. The Administrator provides the Fund, at the Administrator's expense, with office space, facilities, equipment and personnel necessary for the conduct of its business. 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. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

Custodian

The Fund acts as the custodian of its securities to the extent permitted under the 1940 Act and are subject to the restrictions imposed on self-custodians by the 1940 Act and the rules and regulations thereunder. The Fund has entered into an agreement with Frost National Bank with respect to the safekeeping of its securities. The principal business office of the custodian is 100 West Houston, San Antonio, Texas 78205.

Transfer and Disbursing Agent

The Fund employs American Stock Transfer & Trust Company as its transfer agent to record transfers of the shares, maintain proxy records and to process distributions. The principal business office of the Fund's transfer agent is 59 Maiden Lane, Plaza Level, New York, NY 10007.

Certifications

In July 2007, the Fund submitted to the New York Stock Exchange pursuant to Section 303A.12(a) of its Listed Company Manual, an unqualified certification of the Fund's Chief Executive Officer. In addition, certifications by the Fund's Chief Executive Officer and Chief Financial Officer have been filed as exhibits to this annual report on Form 10-K as required by the Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002.

Forward-Looking Statements

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

Among the factors that could cause actual results to differ materially are the following: (i) changes in the economic conditions in which the Fund operates negatively impacting its financial resources; (ii) certain of the Fund's competitors have substantially grater financial resources than the Fund reducing the number of suitable investment opportunities offered or reducing the yield necessary to consummate the investment; (iii) there is uncertainty regarding the value of the Fund's privately held securities that require a good faith estimate of fair value for which a change in estimate could affect the Fund's net asset value; (iv) the Fund's investments in securities of privately held companies may be illiquid which could affect its ability to realize a gain; (v) the Fund's portfolio companies could default on their loans or provide no returns on its investments which could affect the Fund's operating results; (vi) the Fund is dependent on external financing to grow its business; (vii) the Fund's ability to retain key management personnel; (viii) an economic downturn or recession could impair the Fund's portfolio companies and therefore harm its operating results; (iv) the Fund's borrowing arrangements impose certain restrictions; (x) changes in interest rates may affect the Fund's cost of capital and net operating income; (xi) the Fund cannot incur additional indebtedness unless it maintains an asset coverage of at least 200%, which may affect returns to its stockholders; (xii) the Fund may fail to continue to qualify for its pass-through treatment as a regulated investment company which could have an affect on stockholder return; (xiii) the Fund's common stock price may be volatile; and (xiv) general business and economic conditions and other risk factors described in its reports filed from time to tome with the Securities and Exchange Commission. The Fund cautions readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

Item 1A. ***Risk Factors***

The following discussion outlines certain risk factors that could affect the Fund's results for 2007 and beyond and cause them to differ materially from those that may be set forth in any forward-looking statement made by us or on its behalf. Readers should carefully consider these risks and all other information contained in the annual report on Form 10-K, including the Fund's consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing the Fund. Additional risks and uncertainties not presently known to the Fund, or not presently deemed material by the Fund, may also impair its operations and performance.

If any of the following risks actually occur, the Fund's business, financial condition, or results of operations could be materially adversely affected. If that happens, the trading price of its common stock could decline and a shareholder may lose all or part of the shareholder's investment.

Risks Related to the Fund's Investments

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

The Fund currently invests, and will continue to invest, in private, small or new companies that may be in their early stages of development. Investments in these types of companies involve a number of significant risks including the following:

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

- They may have no earnings or experienced losses or may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;

- They are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse impact on their business and prospects and, in turn, on its investment;

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

- They generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

- Generally little public information exists about these companies and investors in those companies generally must rely on the ability of the equity sponsor to obtain adequate information for the purposes of evaluating potential returns and making a fully informed investment decision.

There is uncertainty regarding the value of the Fund's privately held securities.

The Fund's net asset value is based on the value the Fund assigns to its portfolio investments. The Fund determines the value of its investments in securities for which market quotations are not available as of the end of each calendar quarter, unless there is a significant event requiring a change in valuation in the interim. Because of the inherent uncertainty of the valuation of portfolio securities that do not have readily ascertainable market values, its fair value determination may differ materially from the value that would have been used had a ready market existed for the securities. The Fund determines the fair value of investments for which no market quotations are available based upon a methodology that the Fund believes reaches a reasonable estimation of fair value. However, the Fund does not apply multiple valuation metrics in reaching this determination, and the Fund does not obtain any third party valuations before reaching this determination. The Fund's determinations of the fair value of its investments have a material impact on its net earnings through the recording of unrealized appreciation or depreciation of investments as well as its assessment of interest income recognition. These accounting items, in turn, dictate the amount of management fees the Fund pays to its investment adviser. The Fund's net asset value could be affected materially if its determinations of the fair value of its investments differ materially from values based on a ready market for these securities.

As of December 31, 2007, none of the securities in which the Fund has invested are publicly traded or have readily available market quotations. If, in the future, the Fund makes investments in companies whose securities are publicly traded and valued at their quoted market price (less a discount to reflect the estimated effects of restrictions on the sale of such securities), the Fund will adjust its net asset value for changes in the value of any publicly held securities on a daily basis.

The Fund depends upon Management, including its investment adviser, for its future success.

The Fund depends upon the diligence and skill of Management, including its investment adviser, Moore, Clayton Capital Advisors, Inc., or the Adviser, to select, structure, close and monitor its investments. Effective June 30, 2005, the Fund entered into an investment advisory agreement with the Adviser (the "Advisory Agreement") concurrently with the Adviser's acquisition of the Fund's previous adviser, ECMC. Under the Advisory Agreement, Management identifies, evaluates, structures, monitors and disposes of the Fund's investments, and the services Management provides significantly impact the Fund's results of operations. The Fund's future success will depend to a significant extent on the continued service and coordination of Management. The Fund's Chief Investment Officer, Gary Forbes, has announced his intention to retire in the near future. Since Mr. Forbes has substantial investment experience and expertise and has generally been responsible for monitoring the status of the Fund's investments and maintaining relationships with its portfolio companies, his retirement could adversely affect the Fund. The Fund is currently in the process of hiring a new chief investment officer. Its success will depend on its ability to recruit and retain a chief investment officer and other highly qualified individuals. In addition, if the Fund is unable to integrate into Management its new chief investment officer effectively, the Fund may be unable to achieve its desired investment results. Although some of the professionals employed by ECMC were retained by the Adviser, the Adviser has a limited history in operating a business development company, and this lack of experience could adversely affect its future performance.

The Adviser may not be able to implement its new investment objective successfully.

Pursuant to advice from the Adviser, the Fund has refocused its investment objective and areas of investment from a regional focus and a record of investing in basic manufacturing and service companies to an investment strategy focused in sectors that are, and which the Fund believes will continue to be, driven by significant social and demographic trends, such as an aging population, increased leisure time, the globalization of business and widespread concern about the environment and increasingly scarce energy resources. The Fund's prior investment objective was to achieve capital appreciation and, as of August 2006, the Fund formally adopted a total return investment strategy. In order to implement this strategy, Management must analyze, due diligence, invest in, monitor and sell companies in industries in which many of them have not previously been involved. Also, its new investment strategy will require Management to investigate and monitor investments that are much more broadly dispersed geographically. In addition, Management will be required to provide valuations for investments in a broader range of securities, including debt securities, which will require expertise beyond that previously required of Management. The Fund cannot assure investors that the overall risk of their investment in the Fund will be reduced as a result of its change in investment strategy. If Management cannot achieve its investment objective successfully, the value of the shareholders investment in the Fund's common stock could decline substantially.

There are significant potential conflicts of interest that could impact the Fund's investment returns.

The Fund's executive officers and directors and the partners of the Adviser serve or may in the future serve as officers, directors or principals of entities that operate in the same or related lines of business as the Fund does or of investment funds managed by its affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of the Fund or its stockholders. For example, Anthony R. Moore, a director of the Fund, is a co-founder of MCCI, and the chairman of the Supervisory Board of MCC. MCC regularly advises companies and other entities on investments and acquisitions that may be suitable investments for the Fund. The Fund also notes that, while the Adviser does not currently advise other funds, it may do so in the future, and such funds, including potential new affiliated pooled investment vehicles or managed accounts not yet established, may have overlapping investment objectives and, accordingly, invest, whether principally or secondarily, in asset classes similar to those targeted by the Fund. As a result, Management may face conflicts in the allocation of investment opportunities between the Fund and other entities. Although the Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, it is

possible that the Fund may not be able to participate in certain investments directed by investment managers affiliated with the Adviser.

When Management identifies an investment, it must choose which investment fund should make the investment. The Fund does not invest in any portfolio company in which the Adviser or any of its affiliates has a pre-existing investment. The Fund may, in the future, co-invest on a concurrent basis with other affiliates of the Adviser, subject to compliance with existing regulatory guidance, applicable regulations and the Adviser's allocation procedures.

In the course of its investing activities, the Fund pays the Adviser management and incentive fees, and reimburses the Adviser for certain expenses it incurs. As a result, investors in the Fund's common stock invest on a "gross" basis and receive distributions on a "net" basis after expenses, resulting in a lower rate of return than one might achieve through direct investments. As a result of this arrangement, there may be times when the management team of the Adviser has interests that differ from those of the Fund's stockholders, giving rise to a conflict.

The Adviser receives a quarterly incentive fee based, in part, on the Fund's pre-incentive fee income, if any, for the immediately preceding calendar quarter. This incentive fee is subject to a quarterly hurdle rate before providing an incentive fee return to the investment adviser. To the extent the Fund or the Adviser is able to exert influence over the Fund's portfolio companies, the quarterly pre-incentive fee may provide the Adviser with an incentive to induce the Fund's portfolio companies to accelerate or defer interest or other obligations owed to the Fund from one calendar quarter to another.

The Fund may not realize gains from its equity investments.

The Fund frequently invests in the equity securities of its portfolio companies. Also, when the Fund makes a loan, it generally receives warrants to acquire stock issued by the borrower. Ultimately, the Fund's goal is to sell these equity interests and realize gains. These equity interests may not appreciate and, in fact, may depreciate in value. Several of its portfolio companies have experienced net losses in recent years or have negative net worth as of the most recent available balance sheet date. In addition, although the Fund realized a net capital gain in 2007 from the sale or disposition of portfolio companies, it incurred capital losses of $1.0 million from the sale of its investment in TurfGrass, LLC. Also, the market value of the Fund's equity investments may fall below its estimate of the fair value of such investments before it sells them. Given these factors, there is a risk that the Fund will not realize gains upon the sale of those or other equity interests that it holds.

The Fund may not be able to make additional investments in its portfolio companies from time to time, which may dilute its interests in such companies.

After its initial investment in a portfolio company, the Fund may be called upon from time to time to provide additional funds to such company, or may have the opportunity to increase its investment in that company through the exercise of a warrant to purchase common stock or through follow-on investments in the debt or equity of that company. There is no assurance that the Fund will make, or have sufficient funds to make, any such follow-on investments. Any decision by the Fund not to make a follow-on investment or any inability on its part to make such an investment may have a negative impact on a portfolio company in need of investment and may result in a missed opportunity for the Fund to increase its participation in a successful operation. A decision not to make a follow-on investment may also dilute its equity interest in, or reduce the expected yield on, its investment.

The Fund has invested in a limited number of portfolio companies.

The Fund is classified as a "non-diversified" investment company under the 1940 Act, which means the Fund is not limited in the proportion of its assets that may be invested in the securities of a single issuer. As a

matter of policy, the Fund does not initially invest more than 15% of the value of its net assets in a single portfolio company. However, follow-on investments, disproportionate increases or decreases in the fair value of certain portfolio companies or sales of investments may result in more than 15% of its net assets being invested in a single portfolio company at a particular time.

As of December 31, 2007, the Fund had investments in 13 entities. A consequence of a limited number of investments is that changes in business or industry trends or in the financial condition, results of operations or the market's assessment of any single portfolio company will affect the Fund's net asset value and the market price of its common stock to a greater extent than would be the case if the Fund were a "diversified" company holding a greater number of investments.

The lack of liquidity of the Fund's privately held securities may adversely affect its business.

The Fund's portfolio investments consist principally of securities that are subject to restrictions on sale because they are not listed or publicly traded securities. If any of these securities were to become publicly traded, the Fund's ability to sell them would still be restricted because it acquired them from the issuer in "private placement" transactions or because the Fund may be deemed to be an affiliate of the issuer. The Fund will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act of 1933, as amended, and applicable state securities laws, unless an exemption from such registration requirements is available. In addition, contractual or practical limitations may restrict its ability to liquidate its securities in portfolio companies because those securities are privately held and the Fund may own a relatively large percentage of the issuer's outstanding securities. Sales may also be limited by market conditions, which may be unfavorable for sales of securities of particular issuers. The illiquidity of the Fund's investments may preclude or delay any disposition of such securities, which may make it difficult for it to obtain cash equal to the value at which it records its investments if the need arises.

The Fund has limited public information regarding the companies in which it invests.

The Fund's portfolio consists entirely of securities issued by privately held companies. There is generally little or no publicly available information about such companies, and the Fund must rely on the diligence of Management to obtain the information necessary for its decision to invest in them and in order to monitor them effectively. There can be no assurance that such diligence efforts will uncover all material information about such privately held businesses necessary to make fully informed investment decisions.

The Fund's portfolio companies may be highly leveraged.

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

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

A substantial portion of the debt incurred by portfolio companies may bear interest at rates that fluctuate in accordance with a stated interest rate index or the prime lending rate. The cash flow of a portfolio company may not be sufficient to meet increases in interest payments on its debt. Accordingly, the profitability of the Fund's

portfolio companies, as well as the value of its investments in such companies, will depend significantly upon prevailing interest rates. In recent months the level of interest rates have increased, which will have an adverse effect on the ability of its portfolio companies to service their floating rate debt and on their profits.

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

The Fund's business depends on external financing.

The Fund's business requires a substantial amount of cash to operate. The Fund may borrow funds to pay contingencies or expenses or to make investments, to maintain its pass-through tax status as a RIC under Subchapter M of the Code. The Fund is permitted under the 1940 Act to borrow if, immediately after the borrowing, the Fund has an asset coverage ratio of at least 200%. That is, the Fund may borrow an amount equal to as much as 50% of the fair value of its total assets (including investments made with borrowed funds). The amount and nature of any such borrowings depend upon a number of factors over which the Fund has no control, including general economic conditions, conditions in the financial markets and the impact of the financing on the tax treatment of its stockholders. On August 18, 2006, the Fund entered into a loan agreement with Regions Bank providing it with a credit facility not to exceed $10.0 million. The agreement expired on December 31, 2007. The use of leverage, even on a short-term basis, could have the effect of magnifying increases or decreases in its net asset value. While the "spread" between the current yield on its investments and the cost of any loan would augment the stockholders' return from the Fund, if the spread narrows (because of an increase in the cost of debt or insufficient income on its investments), distributions to the stockholders could be adversely affected. This may render the Fund unable to meet its obligations to its lenders, which might then require it to liquidate some or all of its investments. There can be no assurance that the Fund would realize full value for its investments or recoup all of its capital if the Fund needed to liquidate its portfolio investments.

Many financial institutions today are unwilling to lend against a portfolio of illiquid, private securities. The make-up of the Fund's portfolio has made it more difficult for it to borrow at the level and on the terms that the Fund desires. Its borrowings have historically consisted of a revolving line of credit, the proceeds of which the Fund has used to provide liquidity for expenses and contingencies and to make new or follow-on investments, and a line of credit promissory note or margin account used quarterly to enable the Fund to achieve adequate diversification to maintain its pass-through tax status as a RIC.

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

Dividends will likely vary or not grow over time and there is a risk that the shareholder may not receive dividends.

On October 23, 2006, the Fund announced a quarterly managed distribution policy where the Fund hoped to issue quarterly distributions at a minimum annual rate of $0.50 per share. On February 19, 2008, the Fund revised its managed distribution policy to issue quarterly distributions at a minimum rate of 10% of the closing price per share on December 31, 2007. However, the Fund cannot assure shareholders that it will achieve investment results or maintain a tax status that will ensure a specified level of cash distributions or year-to-year increases in cash distributions.

The Fund operates in a highly competitive market for investment opportunities.

The Fund competes with a large number of private equity funds and mezzanine funds, investment banks and other equity and non-equity based investment funds, investment entities, foreign investors and individuals and other sources of financing, including tradition financial services companies such as commercial banks. In recent years, the number of investment vehicles seeking small capitalization investments has increased dramatically. Many of the Fund's competitors are substantially larger and have considerably greater financial resources, and some may be subject to different and frequently less stringent regulation. As its portfolio size gets larger, the Fund expects that some of its investments will be larger as well. The Fund believes that it will face increased competition to participate in these larger transactions. These competitors may have a lower cost of funds and many have access to funding sources that are not available to the Fund. In addition, some of its competitors may have higher risk tolerances or difference risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. As a result of this competition, the Fund may not be able to take advantage of attractive investment opportunities from time to time. There is no assurance that the competitive pressures the Fund faces will not have a material adverse effect on its business, financial condition, and results of operations.

The Fund's investments in foreign securities, if any, may involve significant risks in addition to the risks inherent in U.S. investments.

The Fund's investment strategy contemplates that a portion of its investments may be made in securities of foreign companies. Investing in foreign companies may expose the Fund to additional risks not typically associated with investing in U.S. companies. These risks may include fluctuations in foreign currency values, changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of the Fund's investments are denominated in U.S. dollars, any investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency may change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Fund may employ hedging techniques to minimize these risks, but it can offer no assurance that it will, in fact, hedge currency risk or that, if it does, such strategies will be effective.

An economic downturn could affect the Fund's operating results.

An economic downturn may adversely affect companies having an enterprise value varying from $15.0 to $75.0 million, which are the Fund's primary market for investments. During periods of adverse economic conditions, these companies may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may also have difficulty expanding their businesses and operations and may be unable to meet their debt service obligations or other expenses as they become due. Any of the foregoing developments could cause the value of the Fund's investments in these companies to decline. In addition, during periods of adverse economic conditions, the Fund may have difficulty accessing financial markets, which could make it more difficult or impossible for it to obtain funding for additional investments. These results could have a material adverse effect on its business, financial condition and results of operations.

The Fund may experience fluctuations in its quarterly results.

The Fund could experience fluctuations in its quarterly operating results due to a number of factors, including variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to

which it encounters competition in its markets, the ability to find and close suitable investments and general economic conditions. The volatility of its results is exacerbated by its relatively small number of investments. As a result of these factors, the shareholder should not rely on the Fund's results for any period as being indicative of performance in future periods.

The due diligence process that the Fund undertakes in connection with its investments may not reveal all facts that may be relevant in connection with an investment.

Before making its investments, the Fund conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, the Fund evaluates a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Its due diligence review with respect to a potential portfolio company typically includes, but is not limited to, a review of historical and prospective financial information including audits and budgets, on-site visits and interviews with management, employees, customers and vendors, a review of business plans and an analysis of the consistency of operations with those plans, and other research relating to the company, management, industry, markets, products and services, and competitors. Outside consultants, legal advisers, accountants and investment banks are expected to be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Fund is required to rely on resources available to it, including information provided by the portfolio company and, in some circumstances, third party investigations. The due diligence process may at times be subjective, including with respect to newly organized companies for which only limited information is available. Accordingly, the Fund cannot assure the shareholder that the due diligence investigation that it will carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. The Fund also cannot assure the shareholder that such an investigation will result in an investment being successful.

Risks Related to the Fund's Business and Structure

The Fund's ability to invest in private companies may be limited in certain circumstances.

If the Fund is to maintain its status as a business development company, the Fund must not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of its total assets are qualifying assets. A principal category of qualifying assets relevant to the Fund's business is securities purchased in transactions not involving any public offering from an issuer that is an eligible portfolio company. Investments in companies organized outside of the United States or having a principal place of business outside of the United States are not eligible portfolio companies.

Any failure on the Fund's part to maintain its status as a business development company would reduce its operating flexibility.

If the Fund does not remain a business development company, it might be regulated as a closed-end investment company under the 1940 Act, which would subject it to substantially more regulatory restrictions under the 1940 Act. This could impose tighter limitations on it in terms of the use of leverage and transactions with affiliated entities. Such developments would correspondingly decrease the Fund's operating flexibility.

The Fund may not continue to qualify as a RIC under the Code.

To remain entitled to the tax benefits accorded to RICs under the Code, the Fund must meet certain income source, asset diversification and annual distribution requirements. To qualify as a RIC, the Fund must derive each

taxable year at least 90% of its gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or foreign currencies, or other income derived with respect to its business of investing in such stock or securities or currencies and net income from interests in certain "qualified" publicly traded partnerships. The annual distribution requirement for a RIC is satisfied if the Fund distributes at least 90% of its ordinary net taxable income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to its stockholders on an annual basis. As discussed above in "The Fund's business depends on external financing," the Fund has historically borrowed funds necessary to make qualifying investments to satisfy the Subchapter M diversification requirements. To the Fund's knowledge, the Internal Revenue Service has not provided definitive guidance on a RIC borrowing and investing in the noted manner to comply with the diversification test. If the Service were to take a contrary view to the Fund's and/or the Fund were unable to borrow sufficient funds in the future, the Fund may no longer qualify as a RIC. If the Fund fails to satisfy such diversification requirements and ceases to qualify for conduit tax treatment, it will be subject to income tax on its income and gains and will not be permitted to deduct distributions paid to stockholders. In addition, its distributions will be taxable as ordinary dividends to the extent paid from earnings and profits. The Fund may also cease to qualify as a RIC, or be subject to income tax and/or a 4% excise tax, if it fails to distribute a sufficient portion of its net investment income and net realized capital gains. The loss of its RIC qualification would have a material adverse effect on the total return, if any, obtainable from an investment in its common stock.

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

None.

Item 2. ***Properties***

The Fund does not own any real estate or other physical properties. The Fund's administrative and principal executive offices are located at 2727 Allen Parkway, 13th Floor, Houston, Texas 77019. This location is leased and maintained through the Fund's Administrator. The Fund believes that these office facilities are suitable and adequate for the business as it is contemplated to be conducted.

Item 3. ***Legal Proceedings***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

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

The Fund's common stock is listed on the New York Stock Exchange under the symbol "EQS". The Fund had approximately 5,000 stockholders as of December 31, 2007, 931 of which were registered holders. Registered holders do not include those stockholders whose stock has been issued in street name. As of December 31, 2007, its net asset value was $12.29 per share of its common stock ($12.29 per diluted share).

The following table reflects the high and low closing sales prices per share of its common stock on the New York Stock Exchange, net asset value, or NAV and quarterly dividends declared per share for the two years ended December 31, 2007, by quarter:

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	$ 8.81	$ 9.30	$ 8.85	$ 7.72	$ 10.46	$ 7.98	$ 7.67	$ 8.54
Low	$ 8.29	$ 8.49	$ 7.00	$ 5.93	$ 7.42	$ 7.01	$ 6.94	$ 7.50
NAV	$ 11.21	$ 11.15	$ 10.54	$ 12.29	$ 9.88	$ 10.40	$ 11.46	$ 11.42
Dividends declared	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 2.50	—	—	$ 0.125

As a regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is required to distribute to its stockholders, in a timely manner, at least 90% of its taxable net investment income each year. If the Fund does not distribute, in a timely manner, 98% of its taxable net capital gains and 98% of its taxable net investment income each year (as well as any portion of the respective 2% balances not distributed in the previous year), the Fund will be subject to a 4% non-deductible federal excise tax on certain undistributed income of regulated investment companies. Under the 1940 Act, the Fund is not permitted to pay dividends to stockholders unless the Fund meets certain asset coverage requirements. If taxable net investment income is retained, the Fund will be subject to federal income and excise taxes. 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 its stockholders will be able to claim their proportionate share of the federal income taxes paid by the fund on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their Fund shares by the difference between their undistributed capital gains and their tax credit.

On October 23, 2006, the Fund announced a quarterly managed distribution policy where the Fund hopes to issue dividends at a minimum annual rate of $0.50 per share. The Fund declared four dividends in 2007 totaling $4.1 million ($0.50 per share). The Fund paid $2.3 million in cash and issued 236,930 additional shares of stock. On February 19, 2008, the Fund revised the managed distribution policy to issue quarterly distributions at a minimum rate of 10% of the closing price per share on December 31, 2007.

Historically, the Fund has distributed net investment income and net taxable realized gains from the sale of portfolio investments at least annually. The Fund declared two dividends during 2006 amounting in total to $19.4 million ($2.625 per share). The 2006 dividend was primarily the result of the net taxable realized gain from the sale of Champion Window Holdings, Inc. The 2006 dividends were paid in additional shares of common stock or in cash by specific election made by each shareholder. The Fund paid $13.5 million in cash for both dividends ($13.0 million paid on March 23, 2006 and $0.5 million paid on December 7, 2006) and issued 787,099 additional shares of stock (729,773 shares at $7.489 per share and 57,326 shares at $8.081 per share).

The Fund invests in companies that are believed to have a high potential for capital appreciation, and the Fund intends to realize the majority of its profits upon the sale of its investments in portfolio companies. Consequently, most of the companies in which the Fund invests do not have established policies of paying annual

dividends. However, a portion of the investments in portfolio securities held by the Fund consists of interest-bearing subordinated debt securities or dividend-paying preferred stock.

During the fiscal years ended December 31, 2007 and December 31, 2006, respectively, the Fund did not sell any securities that were not registered under the Securities Act of 1933.

Item 6. ***Selected Financial Data***

The following is a summary of selected financial data and per share data of the Fund for the five years ended December 31, 2007 (in thousands, except per share data):

(in thousands, except per share amounts)	2007	2006	2005	2004	2003
Total investment income	$ 4,857	$ 6,016	$ 2,530	$ 6,196	$ 7,166
Net investment (loss) income	$ (523)	$ (102)	$ (3,134)	$ 3,706	$ 3,398
Net realized gain (loss) of portfolio securities	$ 5,264	$ 19,012	$ 1,237	$ (5,474)	$ (5,508)
Net change in unrealized appreciation (depreciation) of portfolio securities	$ 7,526	$ (4,751)	$ 18,617	$ 3,003	$ (2,159)
Net increase (decrease) in net assets resulting from operations	$ 12,267	$ 14,159	$ 16,720	$ 1,236	$ (4,269)
Dividends declared	$ 4,123	$ 19,455	$ —	$ 3,560	$ 4,556
Total assets	$ 134,730	$ 125,866	$ 143,984	$ 94,622	$ 132,908
Total net assets	$ 103,216	$ 93,236	$ 92,602	$ 68,600	$ 71,538
Net cash (used in) provided by operating activities	$ (18,265)	$ 59,930	$ (24,026)	$ 57,265	$ 11,429
Shares outstanding at end of year	8,401	8,164	7,377	6,507	6,615
Weighted average shares outstanding, basic	8,251	7,949	6,948	6,462	6,244

Per Share Data:

	2007	2006	2005	2004	2003
Net investment (loss) income	$ (0.06)	$ (0.01)	$ (0.45)	$ 0.57	$ 0.55
Net realized gain (loss) of portfolio securities	$ 0.64	$ 2.39	$ 0.18	$ (0.84)	$ (0.88)
Net change in unrealized appreciation (depreciation) of portfolio securities	$ 0.91	$ (0.60)	$ 2.68	$ 0.46	$ (0.35)
Net increase (decrease) in net amounts resulting from operations per share, basic and diluted	$ 1.49	$ 1.78	$ 2.41	$ 0.19	$ (0.68)
Dividends declared	$ 0.50	$ 2.63	$ —	$ 0.57	$ 0.72
Net asset value (including unrealized appreciation)	$ 12.29	$ 11.42	$ 12.55	$ 10.54	$ 10.81

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

Overview

The Fund is a business development company that provides financing solutions for small capitalization companies. The Fund began operations in 1983. The Fund's investment objective is to generate investment income and long-term capital gains through a total return investment strategy under which it invests in debt and equity securities of small-capitalization, privately held companies.

In June 2005, the Fund retained Moore Clayton Capital Advisors, Inc., or the Adviser, as its registered investment adviser to manage its portfolio and provide access to investment opportunities. The Adviser is a wholly owned subsidiary of MCC Global NV, or MCC, an international investment advisory firm that currently holds 15.2% of the Fund's common stock.

As a business development company, the Fund is required to comply with certain regulatory requirements. For instance, the Fund generally has to invest at least 70% of its total assets in "qualifying assets," including securities of private U.S. companies, cash, cash equivalents, U.S. government securities and short-term high- quality debt investments. The Fund is a RIC under Subchapter M of the Code. To qualify as a RIC, the Fund must meet certain source of income and asset diversification requirements. If it complies with the provisions of Subchapter M, the Fund generally does not have to pay corporate-level income taxes on any income that distributed to the Fund's stockholders.

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

Expenses. The Fund's primary operating expenses consist of investment advisory and management fees payable to the Adviser for its work in identifying, evaluating, negotiating, closing and monitoring investments. The Adviser provides the investment professionals of the Adviser and the Fund's Administrator, Equus Capital Administration Company, Inc., and their respective staffs, as well as access to the investment professionals of the Administrator. The Adviser also provides and pays for the management services necessary to run the Fund's business. Under the Advisory Agreement between the Adviser and the Fund, the Adviser receives a management fee equal to an annual rate of 2% of the net assets of the Fund, which is paid quarterly in arrears. Under the Advisory Agreement, the Fund also agreed to pay an incentive fee to the Adviser based on both realized investment income and net realized capital gains less unrealized capital depreciation. This incentive fee is equal to (a) 20% of the excess, if any, of the Fund's net investment income for each quarter that exceeds a quarterly hurdle rate equal to 2% (8% annualized) of the Fund's net assets, and (b) 20% of the Fund's net realized capital gain less unrealized capital depreciation. The incentive fee calculated in clause (b) is paid on an annual basis. The Fund's Administrator provides administrative services to it, for which the Fund pays an administrative fee. Under the administration agreement the Fund entered into with the Administrator on June 30, 2006, the Fund reimburses the Administrator for its costs and expenses in performing its obligations and providing personnel and facilities up to a maximum of $0.5 million per year.

Operating Activities. The Fund uses cash to make new investments and follow-on investments in its existing portfolio companies. The Fund records these investments at cost on the applicable trade date. Realized gains or losses are computed using the specific identification method. On an ongoing basis, the Fund carries its investments in its financial statements at fair value, as determined by the Fund's board of directors. See "—Significant Accounting Policies – Valuation" below. As of December 31, 2007, the Fund had invested 70% of its net assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. At that time, the Fund had invested 8.1% by value in shares of common stock, 11.5% in membership interests in limited liability companies, 24.0% in preferred stock and 26.3% in various debt instruments. Also as of

December 31, 2007, the Fund had invested the proceeds of borrowings on margin (as discussed below under "—Financing Activities") in short-term, highly liquid investments, consisting primarily of U.S. Treasury Bills, interest-bearing bank accounts and certificates of deposit, that are, in the opinion of the Adviser, appropriate for the preservation of the principal amount of such instruments. The Fund has maintained substantial amounts of cash and cash equivalents since 2004.

Under certain circumstances, the Fund makes follow-on investments in some of its portfolio companies. As of December 31, 2007, the Fund had commitments to make $17.3 million in investments in three existing portfolio companies. The Fund is committed to $7.8 million in one or more debt securities to be issued by RP&C International Investments LLC; $4.4 million in HealthSPAC, LLC and $5.1 million Riptide, LLC. See "—Portfolio Companies – RP&C International Investments LLC", "—Portfolio Companies – HealthSPAC LLC", and "—Portfolio Companies – Riptide LLC" below.

Financing Activities. From time to time, the Fund uses leverage to finance a portion of its investments. The Fund then repays such debt from the sale of portfolio securities. Under the 1940 Act, the Fund has the ability to borrow funds and issue debt securities or preferred stock, which are referred to as senior securities, subject to certain restrictions including an overall limitation on the amount of outstanding debt, or leverage, relative to equity of 1:1. Because of the nature and size of the Fund's portfolio investments, it periodically borrows funds to make qualifying investments in order to maintain its qualification as a RIC. During 2007 and 2006, the Fund borrowed such funds by accessing a margin account with a securities brokerage firm. The Fund invests the proceeds of these margin loans in high-quality securities such U.S. Treasury securities until they are repaid. The Fund refers to these high-quality investments as "restricted assets" because they are not generally available for investment in portfolio companies under the terms of borrowing. If, in the future, the Fund cannot borrow funds to make such qualifying investments at the end of any future quarter, it may not qualify as a RIC and would become subject to corporate-level income tax on its net investment income and realized capital gains, if any. In addition, the Fund's distributions to stockholders would be taxable as ordinary dividends to the extent paid from earnings and profits. See "Federal Income Tax Considerations."

Distributions. The Fund has a managed distribution policy. The Fund seeks to pay quarterly dividends to shareholders at an annualized rate equal to 10% of the Fund's market value, based on the 2007 year-end closing share price of $6.31. The Fund's board of directors periodically will reassess the annualized percentage at which the Fund's quarterly distributions will be made. The board may change or terminate the managed distribution policy at any time; any such change or termination may have an adverse effect on the market price for the Fund's shares. The current policy has been in place since February 2008. The Fund originally had a policy, adopted in October 2006, to pay quarterly dividends to shareholders at an annual rate of a minimum of $0.50 per share.

The Fund is managed with a goal of generating as much of its dividends as possible from ordinary income (net investment income and short-term capital gains). The balance of the dividend then comes from long-term capital gains and, if necessary, a return of capital.

If the Fund has taxable income and net capital gains in any fiscal year that exceeds the aggregate amount distributed in that year, the Fund will make an additional "special" distribution in the amount of that excess after the close of that fiscal year. The special distribution is required for the Fund to maintain its RIC tax status.

Possible Share Repurchase. As a closed-end business development company, the Fund's shares of common stock are not redeemable at the option of stockholders, and its shares currently trade at a discount to their net asset value. The Fund's board of directors has determined that it would be in the best interests of its stockholders to reduce or eliminate this market value discount. Accordingly, the Fund has been authorized to, and may from time to time, repurchase shares of its outstanding common stock (including by means of tender offers or privately negotiated transactions) in an effort to reduce or eliminate this market discount or to increase the net asset value of the Fund's shares. The Fund is not required to undertake any such share repurchases.

Significant Accounting Policies

Valuation of Investments

The valuation of portfolio companies is the most significant area of judgment impacting the Fund's financial statements. The Fund carries portfolio investments on its financial statements at fair value, with any net change in unrealized appreciation or depreciation included in the determination of net assets. The Fund performs valuations of portfolio securities in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, and the financial reporting policies of the SEC. The applicable methods prescribed by such principles and policies are described below:

Publicly traded portfolio securities. The Fund values investments in companies whose securities are publicly traded at their quoted market prices 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, which the Fund refers to as the valuation discount, if applicable. As of December 31, 2007 and 2006, the Fund had no investments in publicly traded securities.

Privately held portfolio securities. The Fund determines the fair value of investments for which no market exists on the basis of procedures established in good faith by its board of directors and based on input from the investment adviser and the Fund's audit committee. As a general principle, the "fair value" of an investment is the amount that the Fund might reasonably expect to receive upon its current sale in an orderly manner. Appraisal valuations are necessarily subjective, and the estimated values arrived at by the Fund's board of directors may differ materially from amounts actually received upon the disposition of specific portfolio securities.

Generally, cost is the primary factor the Fund uses to determine fair value until significant developments affecting a portfolio company (such as results of operations or changes in general market conditions) provide a basis for an appraisal valuation. Thereafter, the Fund carries portfolio investments at appraised values as determined quarterly by the Adviser, subject to the approval of the Fund's board of directors. The Fund typically bases its valuations upon a multiple of each portfolio company's income and/or cash flow, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, this appraisal may be based upon estimated liquidation value.

The Fund typically appraises its common equity investment in each portfolio company at a multiple of the free cash flow generated by such company in its most recent fiscal year, less adjustments for outstanding funded indebtedness and other senior securities such as preferred stock. In some cases, the Fund considers projections of current year free cash flow in its appraisals, and it may also consider an adjustment to the estimate of free cash flow for non-recurring items. The Fund applies multiples based on the Adviser's experience and recent transactions in the private company marketplace and cautions that these assessments are necessarily subjective in nature.

From time to time, the Fund may elect to use third-party transactions in a portfolio company's securities as the basis for its valuation of such company, although this is not the Fund's typical approach to valuation. This method of valuation is referred to as the private market method. When an external event, such as a purchase transaction, public rights offering or subsequent equity sale occurs, the Fund applies the pricing indicated by such external event to corroborate its private equity valuation. The Fund generally uses the private market method only with respect to completed transactions or firm offers made by sophisticated, independent investors.

Most of the Fund's portfolio companies use leverage, which has the effect of magnifying its return or loss on investments. For example, if a portfolio company has a total enterprise value of $10.0 million and has $7.5 million in funded indebtedness, the Fund values its equity at $2.5 million. If the enterprise value of that portfolio company then increases or decreases by 20%, to $12.0 million or $8.0 million, respectively, the value of the equity will increase or decrease by 80%, to $4.5 or $0.5 million, as the case may be. This disproportionate increase or decrease in equity value relative to total asset value adds a level of volatility to the Fund's equity-oriented portfolio securities.

From time to time, some of the Fund's portfolio companies default in respect of covenants in their loan agreements. When the Fund has a reasonable belief that a portfolio company will be able to restructure its loan agreement to waive or eliminate such default or defaults, the Fund continues to value its portfolio company's securities as a going concern. If a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its debt or is not successful in refinancing its debt at maturity, the value of the Fund's investment could be reduced or eliminated through foreclosure on such portfolio company's assets or through reorganization or bankruptcy. Under such circumstances, the Fund adjusts the value of its investment in the portfolio company accordingly.

The Fund generally holds investments in debt securities to maturity. Accordingly, the Fund determines the fair value of debt securities on the basis of the terms of the debt securities and the financial condition of the issuer. The Fund values certificates of deposit at their face value, plus interest accrued to the date of valuation. On a daily basis, the Fund adjusts net asset value for changes in the value of publicly held securities, if any, and for material changes in the value of investments in securities issued by private companies. The Fund reports these amounts to Lipper Analytical Services, Inc. Weekly, and its 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. As of December 31, 2007, the Fund had no capital loss carry forward as it was fully utilized during 2006. The Fund may borrow money from time to time to maintain its status as a RIC under the Code. See "—Overview – Financing Activities" above.

Interest Income Recognition

The Fund records interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that it expects to collect such amounts. The Fund stops accruing interest on investments when it determines that interest is no longer collectible. If the Fund receives any cash after determining that interest is no longer collectible, it treats such cash as payment on the principal balance until the entire principal balance has been repaid, before it recognizes any additional interest income. The Fund accretes or amortizes discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities.

Payment in Kind Interest

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

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "*Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*". FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's consolidated financial statements in accordance with SFAS No. 109, "*Accounting for Income Taxes*". It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This

standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN No. 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN No. 48. The cumulative effect of applying the provisions of FIN No. 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The Fund has adopted FIN No. 48 which will have no material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*". SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under this standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities that are carried at fair value as a recurring basis in the financial statements. The FASB did announce a one year deferral for the implementation of SFAS No. 157 for other non-financial assets and liabilities. In February 2008, FASB issued FASB Staff Position No. FAS 157-2. This FSP defers the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Fund believes that the adoption of SFAS No. 157 will not have a material impact on its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*". This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Fund believes that the adoption of SFAS No. 159 will not have a material impact on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R, *"Business Combinations,"* ("SFAS No. 141R") which replaces SFAS No. 141. SFAS No. 141R requires most assets acquired and liabilities assumed in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair value as of the date of the acquisition. SFAS No. 141R also requires that acquisition related costs and restructuring costs be recognized separately from the business combination. SFAS No. 141R is effective for business combinations completed in fiscal years beginning after December 15, 2008. The Fund believes that the adoption of SFAS No. 141R will not have a material impact on its financial position, results of operation or cash flows.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51"* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is

deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interest of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Fund believes that the adoption of SFAS No. 160 will not have a material impact on its financial position, results of operation or cash flows.

Liquidity and Capital Resources

The Fund generates cash primarily from sales of securities and borrowings, as well as capital gains realized upon the sale of portfolio investments. The Fund uses cash primarily to make additional investments, either in new companies or as follow-on investments in the existing portfolio companies and to pay the dividends to its stockholders.

Year Ended December 31, 2007

As of December 31, 2007, the Fund had total assets of $134.7 million, of which $72.1 million were invested in portfolio investments and $30.9 million were invested in temporary cash investments. Among the Fund's portfolio investments, $27.1 (at fair value) million were in the form of notes receivable from portfolio companies as of December 31, 2007. Of this amount, notes issued by four portfolio companies, having an aggregate value of $12.0 million, were currently paying cash interest in accordance with their terms.

As of December 31, 2007, the Fund also had $30.3 million of restricted cash and temporary investments, including primarily the proceeds of a quarter-end margin loan that the Fund incurred to maintain the diversification requirements applicable to a RIC. Of this amount, $30.0 million was invested in U.S. Treasury bills and $0.3 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured on January 3, 2008 and Fund subsequently repaid this margin.

Operating Activities. The Fund used $18.3 million in cash for operating activities in 2007. In 2007, the Fund made investments in portfolio companies of $27.5 million and paid fees to its advisers, directors, banks and suppliers of $6.5 million, while realizing $6.8 million from the disposition of portfolio securities.

Financing Activities. The Fund used $2.3 million in cash from financing activities for 2007. The Fund declared four dividends in 2007 totaling $4.1 million ($0.50 per share). The Fund paid $2.3 million in cash and issued 236,930 additional shares of stock. The Fund determined that the 2007 dividend payments should be classified as a 100% qualifying dividend, with 100% allocated to capital gain as of December 31, 2007.

Year Ended December 31, 2006

As of December 31, 2006, the Fund had total assets of $125.9 million, of which $42.6 million were invested in portfolio investments and $51.3 million were invested in temporary cash investments. Among the Fund's portfolio investments, $19.6 million were in the form of notes receivable from portfolio companies as of December 31, 2006. Of this amount, notes issued by three portfolio companies, having an aggregate value of $13.3 million, were currently paying cash interest in accordance with their terms.

As of December 31, 2006, the Fund also had $30.3 million of restricted assets, including primarily the proceeds of a quarter-end margin loan that the Fund incurred to maintain the diversification requirements applicable to a RIC. Of this amount, $30.0 million were invested in U.S. Treasury bills and $0.3 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The Fund subsequently sold the U.S. Treasury bills and repaid this margin loan on January 7, 2007.

Operating Activities. Net cash provided by operating activities was $59.9 million in 2006 as compared to a use of ($24.0 million) in cash for operating activities in 2005. Major events leading to the increase in cash provided by operating activities were as follows:

- On October 2, 2006, the Fund sold its interest in preferred stock of PalletOne for $4.2 million.
- On August 31, 2006, the Fund sold its interest in Equicom, Inc. for $3.0 million.
- On April 25, 2006, the Fund received a $2.0 million cash payment from an escrow account of Strategic Holdings, Inc. The Fund recorded this amount as a $1.9 million payment in respect of an escrow receivable and $0.1 million relating to interest on the escrow balance.
- On February 21, 2006, the Fund acquired 4,000 additional shares of common stock in newly formed Cedar Lodge Holdings, Inc. for $0.4 million and also loaned $7.6 million to Cedar Lodge Holdings. The promissory note issued in connection with this loan provides for interest payments at an annual rate of 18%, with provisions that could cause this rate to rise to an effective annual interest rate of 19.8%. This investment financed the conversion of certain apartments in Baton Rouge, Louisiana into condominiums.
- On January 25, 2006, the Fund received a cash payment of $28.1 million in connection with the sale of its investment in Champion Window Holdings, Inc., or "Champion."
- On June 30, 2006, the Fund entered into a one-year agreement with A.G. Edwards pursuant to which A.G. Edwards agreed to provide the Fund with financial advisory services regarding strategic and tactical alternatives in consideration of a fee of $0.2 million.

Financing Activities. In 2006, the Fund declared two dividends totaling $19.5 million, or $2.625 per share. On February 2, 2006, the fund declared a dividend of $18.4 million, or $2.50 per share, in connection with the sale of Champion. the fund paid this dividend on March 23, 2006 in the form of $13.0 million in cash and a stock dividend of 729,773 newly issued shares of common stock. These shares were issued at an effective price of $7.489 per share on March 23, 2006. On October 23, 2006 the Fund declared a dividend of $1.0 million, or $0.125 per share. The Fund paid this dividend on December 7, 2006 in the form of a $0.6 million cash dividend and issued 57,326 additional shares of its common stock at an effective price of $8.081 per share. The Fund determined that the 2006 dividend payments should be classified as a 100% qualifying dividend, with 67.37% allocated to ordinary income and 32.63% allocated to capital gain as of December 31, 2006.

On August 18, 2006, the Fund entered into a credit facility with Regions Bank which provides for borrowings having a value of up to 20% of the fair value of its portfolio investments up to $10.0 million outstanding at any time. Amounts, if any, outstanding under this credit facility will accrue interest at an annual rate equal to the London Interbank Offer Rate, or LIBOR, plus an applicable premium as described in the credit facility and will be payable semiannually in arrears. This credit facility expired on December 31, 2007. It includes customary covenants and borrowing conditions and provides that any borrowings thereunder will be secured by liens on certain of its investments. To date, the Fund has not borrowed any amounts under this credit facility. The Fund is currently considering other financing arrangements and has not renewed the expired Credit Facility.

Results of Operations

Investment Income and Expense

Year Ended December 31, 2007 as compared to Year Ended December 31, 2006

Total income from portfolio securities was $3.1 million and $4.2 million in 2007 and 2006, respectively. The decrease in total investment income from 2006 to 2007 was due to liquidation of a Cedar Lodge Holdings, Inc., in early 2007, which generated $0.9 million in interest income in 2006, along with a decrease in dividend income in 2007.

Interest from temporary cash investments was $1.7 million in 2007 and $1.8 million in 2006. Temporary cash investments (excluding the margin account) decreased from $51.3 million to $30.9 million in 2007 as compared to the prior year.

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 amounted to $1.7 million and $1.8 million in 2007 and 2006, respectively, as the Fund maintained stable average net assets over the period. The Fund's estimated expenses for incentive fees for 2006 were $0.9 million, due to the capital gains generated by the sale of Drilltec Corporation, Cedar Lodge Holdings, Inc. and final escrow payments from the 2006 sales of Champion Windows and Alenco Window Holdings, LLC. The incentive fee for 2006 was $1.9 million, which was based primarily on capital gains generated by the sale of Champion. Director fees and expenses decreased by $0.1 million in 2007 as compared to 2006, due primarily to an decrease in the number of board members from eight to seven, which occurred in February 2007.

Interest expense was $0.6 million and $0.2 million in 2007 and 2006, respectively. The decrease was due primarily to the decline in margin interest expense for borrowing U.S. Treasury bills at the end of each quarter.

Offering costs of $0.1 million were expensed during the third quarter of 2007 as the Fund abandoned the shareholders' proposal authorizing the Fund to offer and sell, or to issue rights to acquire shares of its common stock at a price below the net asset value of such stock.

As a result of the factors described above, net investment loss after expenses was ($0.5 million) for 2007 as compared to ($0.1 million) for 2006.

Year Ended December 31, 2006 as compared to Year Ended December 31, 2005

Total income from portfolio securities was $4.2 million and $2.0 million in 2006 and 2005, respectively. The increase in total investment income from 2005 to 2006 was due primarily to income generated from two new investments in real estate portfolio companies, Creekstone Florida Holdings, LLC and Cedar Lodge Holdings, Inc., in the approximate amounts of $0.6 million and $0.9 million, respectively, in 2006.

Interest from temporary cash investments increased from $0.5 million in 2005 to $1.8 million in 2006. This increase was primarily due to an increase in cash generated from the sale of the Fund's investment in Champion. Temporary cash investments (excluding the margin account) increased from $25.6 million to $51.3 million in 2006 as compared to the prior year.

Investment advisory fees to the Adviser amounted to $1.8 million and $1.7 million in 2006 and 2005, respectively. The increase in management fees in 2006 was due to an increase in the net assets due to the sale of the Fund's Champion investment. The Fund's estimated expenses for incentive fees for 2006 were $2.0 million, which were based primarily on capital gains generated by the sale of Champion. The incentive fee for 2005 was $0.7 million, all of which was payable to the Adviser in the last six months of the year. See "—Overview – Expenses". The Adviser's incentive fee is in lieu of a former stock incentive plan. The former stock incentive plan had authorized the Fund to issue options of outstanding Fund shares to the directors and officers of the Fund. When the Fund retained the Adviser on June 30, 2005, the Board of Directors cancelled the plan and approved the incentive fee. Director fees and expenses increased by $0.1 million in 2006 as compared to 2005, due primarily to an increase in the number of board and board committee meetings in 2006 as compared to 2005 and an increase in the number of board members from seven to eight on June 30, 2005. The Fund held more full board and board committee meetings due to increased board dividend decisions, increased portfolio investment activity and meetings to discuss the Fund's business strategy.

The Fund's administrative fees increased by $0.2 million in 2006 as compared to 2005 due primarily to a change in administrator from ECMC to Equus Capital Administration Company, Inc., or the Administrator, and

the terms of the related Administration Agreement. The former administrator, ECMC, received compensation for providing certain investor communication services. This fee was $13,000 per quarter for such services. Under the Administration Agreement, the Administrator received $0.5 million in 2006. In addition, the Fund agreed to reimburse the Administrator for certain one-time costs and expenses (collectively, the "Special Administrative Fee") associated with the change in administrators. This expense included the cost of retention bonuses for investment professionals who joined Equus Capital from ECMC and the cost of severance payments in connection with the departure of certain other personnel. The Fund recognized the Special Administrative Fee, in the amount of $0.5 million, as an expense at June 30, 2005. The Fund did not incur any incremental Special Administrative Fee in 2006.

Interest expense was $0.2 million and $0.1 million in 2006 and 2005, respectively. The increase was due primarily to the margin interest expense for borrowing U.S. Treasury bills at the end of each quarter.

Prior to June 30, 2005, the Fund accounted for stock options issued by it using variable plan accounting. This accounting provision resulted in a non-cash compensation expense of $0.6 million in 2005. The expense in 2005 was due to a fluctuation in the Fund's share price from the beginning of the year to June 30, 2005 in relation to the exercise price of the stock options. In 2005, the Fund's market price increased from $7.71 per share at January 1, 2005 to $8.09 at June 30, 2005. The Fund's stock option plan was cancelled on June 30, 2005, and it had no stock options outstanding during 2006.

As a result of the factors described above, net investment loss after expenses was $0.1 million for 2006 as compared to $3.1 million for 2005.

Summary of New and Follow-On Investments

Year Ended December 31, 2007

During the twelve months ended December 31, 2007, the Fund invested $21.2 million in five new portfolio companies and made follow-on investments of 7.0 million in seven portfolio companies, including $0.7 million in the form of accrued interest and dividends received in the form of additional portfolio securities, accretion of original issue discount on promissory notes and amortization of original issue premiums on promissory notes.

The following table includes significant new and follow-on investments during the year ended December 31, 2007 (in thousands):

	New		Follow-On		
Portfolio Company	**Cash**	**Noncash**	**Cash**	**Noncash**	**Total**
Nickent Golf, Inc	$ 10,000	$ 67	$ —	$ —	$ 10,067
Equus Media Development Company, LLC	5,000	—	—	—	5,000
Riptide Entertainment LLC	—	—	3,835	—	3,835
Big Apple Entertainment Partners LLC	3,000	—	—	—	3,000
Infinia Corporation	3,000	—	—	—	3,000
RP&C International Investments LLC	—	—	2,009	—	2,009
Various others	100	—	525	670	1,305
	$ 21,100	$ 67	$ 6,369	$ 670	$ 28,216

On April 3, 2007, the Fund made an investment of $2.0 million for 13% promissory note with a maturity date of August 3, 2007 with Nickent Golf, Inc., for working capital for development and growth opportunities. On June 21, 2007, the Fund made a follow-on investment with Nickent Golf, Inc. of $6.0 million for a 13% promissory note with a maturity date of June 20, 2011, for working capital, strategic marketing and global expansion, and received $2.0 million in repayment of the bridge loan date April 3, 2007. On August 16, 2007, the

Fund made a follow-on investment with Nickent Golf, Inc, of $2.0 million in exchange for 2,000,000 Class A Preferred shares, for working capital for development and growth opportunities. *See subsequent events where the Fund made a follow-on investment of $1.0 million.*

On January 30, 2007, the Fund invested $5.0 million in Equus Media Development Company, LLC, a 100% wholly owned subsidiary which has a development financing agreement with Kopelson Entertainment for the purchase of creative material to be used for commercial exploitation in a variety of media including but not limited to the production of motion pictures.

On February 16, 2007, the Fund invested $0.4 million as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. On April 14, 2007, the Fund made a follow-on investment in Riptide Entertainment, LLC of $0.3 million for an 8% promissory note with a maturity date of April 12, 2012. Additional follow-on investments include 8% promissory notes for $0.2 million on May 2, 2007, $0.4 million on May 11, and $2.6 million on June 18, all maturing in 2012. *See subsequent events where the Fund made a follow-on investment of $1.6 million.*

On October 4, 2007, the Fund invested $3.0 million in mezzanine debt in Big Apple Entertainment in the form of an 18% promissory note.

On June 13, 2007, the Fund made an investment of $3.0 million in exchange for 666,667 Class A Preferred Shares in Infinia Corporation, to further the company's sales and product development programs and for company operations. *See subsequent events where the Fund made a follow-on investment of $5.0 million.*

As of December 31, 2007, the Fund made follow-on investments on RP&C International Investments LLC ("RP&C") amounting to $2.0 million. On September 22, 2006, the Fund made its first investment in RP&C for $0.3 million. Then in the fourth quarter of 2006, the Fund made two more investments in RP&C amounting to $0.4 million and $0.6 million, respectively. These investments followed an August 4, 2006 commitment agreement where, the Fund subscribed to acquire an interest in RP&C International Investments LLC ("RP&C"). RP&C is a fund that invests in nursing and residential care homes in Europe and the subscription commitment obligates the Fund to invest up to $11.1 million in RP&C. *See subsequent events where the Fund received $2.2 million from RP&C.*

Year Ended December 31, 2006

During the twelve months ended December 31, 2006, the Fund invested $1.3 million in two new portfolio companies and made follow-on investments of $9.8 million in nine portfolio companies, including $1.3 million in the form of accrued interest and dividends received in the form of additional portfolio securities, accretion of original issue discount on promissory notes and amortization of original issue premiums on promissory notes.

The following table includes significant new and follow-on investments during the year ended December 31, 2006 (in thousands):

	New		Follow-On		
Portfolio Company	**Cash**	**Noncash**	**Cash**	**Noncash**	**Total**
Cedar Lodge Holding, Inc.	$ —	$ —	$ 8,011	$ (109)	$ 7,902
RP&C International Investments LLC	1,296	—	—	—	1,296
Conglobal Industries Holding, Inc	—	—	—	893	893
Riptide Entertainment LLC	—	—	500	—	500
Various others	40	—	13	468	521
	$ 1,336	$ —	$ 8,524	$ 1,252	$ 11,112

On February 21, 2006, the Fund made a $8.0 million follow-on investment to Cedar Lodge Holdings, Inc. The investment included $0.4 million for 4,000 shares of $100 par value share common stock and $7.6 million for an 18% promissory note and organization costs related to the investment. For the year ended December 31, 2006, the Fund recorded $0.1 million as amortization of premium related to its investment in the interest bearing promissory notes.

As of December 31, 2006, the Fund funded a total of three capital calls in RP&C International Investments LLC ("RP&C") amounting to $1.3 million. On September 22, 2006, the Fund made its first investment in RP&C for $0.3 million. Then in the fourth quarter of 2006, the Fund made two more investments in RP&C amounting to $0.4 million and $0.6 million respectively. These investments followed an August 4, 2006 commitment agreement where, Equus subscribed to acquire an interest in RP&C International Investments LLC ("RP&C"). RP&C is a fund that invests in nursing and residential care homes in Europe and the subscription commitment obligates Equus to invest up to $11.1 million in RP&C. On December 11, 2006, the Fund made a $40,000 new investment for a 40% initial member's interest into HealthSPAC, LLC ("HealthSPAC") and also made a commitment to spend up to $5.0 million in HealthSPAC.

For the twelve months ended December 31, 2006, the Fund recorded $0.9 million as amortization of original issue discount on the Fund's two non-interest bearing notes receivable from ConGlobal Industries, Inc. One note is through the Fund's 100% wholly-owned subsidiary, CCI-ANI Finance, LLC ("CCI-ANI") and the original issue discount amounted to $0.7 million, while the remainder of $0.2 million was amortization of original issue discount for a receivable owed directly to the Fund from ConGlobal Industries, Inc.

On November 29, 2006, the Fund made a $0.2 million follow-on investment for an 8% promissory note into Riptide Entertainment, LLC ("Riptide") with a maturity date of November 29, 2011. On April 18, 2006, the Fund made a follow-on investment into Riptide of $0.3 million for an 8% promissory note with a maturity date of April 18, 2011. The investment is to be used for the exclusive, worldwide license to use the trade name "Dick Clark's American Bandstand" in the production of live musical celebrity tribute shows.

Year Ended December 31, 2005

During the year ended December 31, 2005, the Fund invested $5.0 million in three new portfolio companies and made follow-on investments of $2.2 million in six portfolio companies. These follow-on investments include including $0.9 million in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on promissory notes.

The following table includes significant new and follow-on investments during the year ended December 31, 2005 (in thousands):

	New		Follow-On		
Portfolio Company	Cash	Noncash	Cash	Noncash	Total
Creekstone Florida Holdings, LLC	$4,311	$ —	$ —	$ —	$4,311
Conglobal Industries Holding, Inc.	—	—	1,069	196	1,265
Riptide Entertainment LLC	565	—	—	—	565
Sovereign Business Forms, Inc.	—	—	—	395	395
Spectrum Management, LLC	—	—	—	224	224
Various others	132	—	247	95	475
	$5,008	$ —	$1,316	$ 910	$7,235

During December 2005, the Fund invested $4.3 million in Creekstone Florida Holdings, LLC, a company formed to invest in real estate in Panama City, Florida. The Fund's investment consists of $4.3 million in a 17%-19.8% promissory note.

During the year ended December 31, 2005, there was original discount accretion of $0.2 million on the subordinated promissory note due from ConGlobal, with a face value of $3.3 million. This accretion increased the discounted balance of the note to $2.9 million. On June 15, 2005, the Fund invested $1.0 million in JL Madre, LLC for a 66.7% member's interest on a 10% promissory note payable. On November 17, 2005, the Fund invested $0.1 million in JL Madre Equipment, LLC for a 66.7% members interest in a company formed to lease equipment to ConGlobal.

On December 13, 2005, the Fund invested $0.6 million in Riptide Entertainment LLC, which included a $0.5 million, 8% promissory note and a 64.67% members interest of $0.1 million. The Fund's investment in Riptide is its first in the leisure and entertainment sector. Riptide will look for investments in the Ripley's Believe It or Not entertainment centers in locations all over the world.

For the year ended December 31, 2005, the Fund received an additional 2,128 shares of preferred stock valued at $0.2 million of Sovereign in dividends, respectively. In addition, Sovereign elected to convert $0.2 million of accrued interest into the balance of the 15% promissory notes due to the Fund.

In January 2005, Spectrum elected to convert $0.2 million of accrued interest into a new 12.75% promissory note due to the Fund.

Realized Gains and Losses on Sales of Portfolio Securities

Year Ended December 31, 2007

During 2007, the Fund realized net capital gains of $5.3 million, including the following significant transactions:

Portfolio Company	Industry	Type	Realized Gain/ (Loss)
The Drilltec Corporation	Industrial products and services	Non-affiliate	$ 3,830
Champion Window Holdings, Inc.	Residential building products	Control	1,403
Cedar Lodge Holdings, Inc.	Real estate	Control	609
TurfGrass America Inc.	Residential building products	Affiliate	(960)
Various others			381
			$ 5,264

Year Ended December 31, 2006

During 2006, the Fund realized net capital gains of $19.0 million, including the following significant transactions:

Portfolio Company	Industry	Type	Realized Gain/ (Loss)
Champion Window Holdings, Inc.	Residential building products	Control	$ 26,969
Jones Industrial Holdings, Inc.	Industrial products and services	Control	1,137
Doane PetCare Enterprises, Inc.	Consumer goods and services	Non-affiliate	1,034
Equicom, Inc.	Media	Control	(10,334)
Various others			206
			$ 19,012

Year Ended December 31, 2005

During 2005, the Fund realized a net capital gains of $1.2 million including the following significant transactions:

Portfolio Company	Industry	Type	Realized Gain/(Loss)
Doane PetCare Enterprises, Inc.	Consumer goods and services	Non-affiliate	1,980
EnGlobal, Inc.	Engineering and consulting services	Non-affiliate	1,890
Vanguard Ventures VII, LP	Venture funds	Non-affiliate	(1,172)
Sternhill Partners I, LP	Venture funds	Non-affiliate	(1,937)
Various others			476
			$ 1,237

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Year Ended December 31, 2007

During 2007, the Fund's net unrealized appreciation on investments increased by $7.5 million to a net unrealized appreciation position of $16.8 million. This increase in appreciation resulted primarily from the increase in the estimated fair value of Infinia Corporation, which the Fund revalued based on a subsequent round of financing completed in early 2008. The increase in appreciation also resulted from the transfer of $1.0 million in net unrealized depreciation to net realized depreciation in connection with the Fund's write-off of Turf Grass Holdings, Inc. These increases were partially offset by the Fund's transfer of $2.0 million in net unrealized appreciation to net realized appreciation related to the sale of Drilltec Corporation. The Fund had additional decreases in unrealized appreciation due to decreases in fair value of four portfolio companies aggregating $9.0 million. This change was primarily comprised of ConGlobal Industries, PalletOne, Inc, Sovereign Business Forms and Spectrum Management LLC.

Year Ended December 31, 2006

During 2006, the Fund recorded an increase in net unrealized depreciation on investments of $4.8 million from a net unrealized appreciation position of $14.0 million to a net unrealized appreciation position of $9.3 million. This increase in appreciation resulted primarily from the transfer of $27.0 million and $1.1 million in net unrealized appreciation to net realized appreciation in connection with the Fund's investment in Champion and Jones Industrial Holdings, Inc., respectively. This increase in depreciation also resulted from the transfer of $0.4 million and $1.0 million in net unrealized appreciation to net realized appreciation for escrow accounts related to the disposition of Alenco Window Holdings, LLC and Doane PetCare Enterprises, Inc., respectively. These increases were partially offset by the Fund's transfer of $10.3 million and $0.5 million in net unrealized depreciation to net realized depreciation related to the sale of Equicom, Inc. and CMC Investment, LLC, respectively. The Fund had additional decreases in unrealized appreciation due to increases in the estimated fair value of eight of its portfolio companies aggregating $14.1 million. This change was primarily comprised of PalletOne, Inc., The Drilltec Corporation and ConGlobal Industries, Inc. resulting from improved operating performances by these companies. We had additional increases in unrealized depreciation, which resulted from decreases in the estimated fair value of two portfolio companies, amounting to $0.1 million.

Year Ended December 31, 2005

During 2005, the Fund's net unrealized appreciation on investments increased by $18.6 million from a net unrealized depreciation position of $4.6 million to net unrealized appreciation of $14.0 million. This increase in unrealized appreciation was due to the Fund's sale of ENGlobal and Doane PetCare Enterprises, which transferred $3.9 million of unrealized appreciation for 2004 into realized gains for 2005. This improvement was

partially offset by the transfer of $3.1 million in unrealized depreciation to realized capital losses from the sale of the Fund's two venture capital funds, Sternhill Partners I, L.P. and Vanguard Ventures VII, L.P. The Fund had additional increases in unrealized appreciation, which resulted from increases in the estimated fair value of eight of its portfolio companies aggregating $22.9 million. Of this amount, Champion Window Holdings Inc. accounted for $12.7 million, Doane PetCare Enterprises accounted for $6.5 million and Spectrum Management LLC accounted for $2.5 million. The Fund also had additional decreases in unrealized appreciation. These decreases resulted from decreases in the estimated fair value of six of the Fund's portfolio companies aggregating $3.5 million, with the two largest decreases in ConGlobal Industries, Inc. accounting for $1.4 million, and Equicom, Inc., accounting for $1.0 million.

Portfolio Companies

During 2007, the Fund invested $21.1 million in five new portfolio companies and made follow-on investments in seven companies, including $0.7 million in the form of accrued interest and dividends received in the form of additional portfolio securities, accretion of original issue discount on promissory notes and amortization of original issue premiums on promissory notes. As of December 31, 2007, the Fund had active investments in the following entities or portfolio companies:

Big Apple Entertainment Partners LLC

Big Apple Entertainment Partners LLC is a franchisee of Ripley Attractions, Inc. formed to develop and operate the Ripley's Times Square Odditorium in New York City. During 2007, the Fund invested $3.0 million in the form of a promissory note with a stated annual interest rate of 18% maturing in October 2008.

The Bradshaw Group, Inc.

The Bradshaw Group, Inc. is a resource for large volume printer users to find cost effective options for laser print equipment, service, parts and supplies. The Fund's initial investment in The Bradshaw Group consisted of 1,335,000 shares of preferred stock, a warrant to purchase 2,229,450 shares of common stock at a purchase price of $0.01 per share which would have expired in May 2008, a promissory note in the amount of $0.5 million with a stated annual interest rate of 15% and a promissory note in the amount of $0.4 million which bore a stated annual interest rate equal to the prime rate (as defined therein) plus 4%. Following an October 18, 2006 decision to exchange the securities for various classes of preferred stock, the Fund's investment consists of 576,828 shares of Class B preferred stock with a 12.25% paid in-kind dividend, 38,750 shares of Class C preferred stock with no dividend rights, 788,649 shares of Class D preferred stock with a 15% paid in-kind stock dividend, 2,218,109 shares of Class E preferred stock with an 8% paid in-kind stock dividend and 2,229,450 warrants to purchase common stock at a purchase price of $0.01 per share which expires in May 2008. This package of investments represents a fully diluted equity interest in The Bradshaw Group of 18%. Gary Forbes, a Senior Vice President of the Fund, serves on the board of directors of The Bradshaw Group.

ConGlobal Industries Holding, Inc. and Affiliates

ConGlobal Industries Holding, Inc. ("ConGlobal") provides logistics and maintenance services to owners and lessees of international shipping containers. As of December 31, 2006, the Fund's investment in ConGlobal consisted of 24,397,303 shares of common stock, and a $3.3 million subordinated promissory note. The Fund believes its investment in ConGlobal represents a fully diluted equity interest of 29.8%. During 2007, the Fund recorded a significant decline in the valuation of ConGlobal, with an increase in unrealized depreciation of $3.3 million on its investments in ConGlobal, CCI-ANI, JLM and JLM Equipment.

In 2002, subsequent to its initial investment in ConGlobal, the Fund formed CCI-ANI Finance for the purpose of making a follow-on investment in ConGlobal by purchasing a subordinated seller note from a former owner of Container-Care International, an affiliate of ConGlobal. The Fund owned 100% of CCI-ANI Finance

through 2005. As of December 31, 2007, the Fund valued its ownership interest in CCI-ANI Finance at $1.8 million, which is $1.0 million below its cost basis in the securities.

The Fund also made a $1.0 million follow-on investment in ConGlobal in June 2005. This investment took the form of a 66.67% (67.95% at December 31, 2007) member's interest in J.L. Madre, a holding company affiliate of ConGlobal. Members of ConGlobal's management team purchased other member's interests in J.L. Madre for $0.5 million. The Fund's $1.0 million investment also included the purchase of a 10% senior participating note issued by J.L. Madre. This promissory note is scheduled to mature in September 2011. At December 2007 the Fund valued its investment in J.L. Madre at $1.0 million with a cost of $1.0 million. In December 2005, the Fund made a follow-on investment of $0.1 million in ConGlobal through the purchase of a 28.82% member's interest in J.L. Madre Equipment, an entity formed for the purpose of leasing equipment to ConGlobal. As of December 2007, the Fund valued its investment in J.L. Madre Equipment at $0.1 million with a cost of $0.1 million. Gary Forbes, a Senior Vice President of the Fund, serves on the board of directors of ConGlobal. *See subsequent events where the Fund received $0.2 million in return of capital and interest from JL Madre, which the Fund owns 67.95% of its membership interest.*

Creekstone Florida Holdings, LLC

Creekstone Florida Holdings, LLC was the Fund's first investment in the real estate market. The Fund formed this investment vehicle for the purpose of holding its investment in the Creekstone Island Reserve condominium development project, which, upon completion, is expected to include 299 condominium homes and townhomes. As of December 31, 2007, the Fund's investment in Creekstone Florida Holdings consisted of a 17% subordinated promissory note and related investment costs. Creekstone Florida Holdings has guaranteed at least two years of interest on this note. At maturity, the terms of the note provide that the Fund will receive additional interest based upon a percentage of gross revenue generated by Creekstone's Island Reserve project in excess of an agreed upon threshold, until such time as the Fund receives the greater of (1) $0.3 million or (2) an amount which would result in the Fund receiving an effective interest rate of 19.8% on its initial loan.

Equus Media Development Company LLC

Equus Media Development Company, LLC ("EMDC"), a wholly-owned subsidiary of the Fund, was formed by the Fund in January 2007. EMDC has a development financing agreement with Kopelson Entertainment for the purchase of creative material to be used for commercial exploitation in a variety of media platforms, including, but not limited to the production of motion pictures. As of December 31, 2007, EMDC had several projects in development and was valued at $5.0 million. Paula Douglass, Vice President of the Fund, serves as President of EMDC.

HealthSPAC, LLC

HealthSPAC, LLC was formed to develop special purpose acquisition companies, or SPACs, focused on healthcare opportunities. HealthSPAC will identify specific industry opportunities within the healthcare sector that it believes can thrive under the SPAC financing model, with an emphasis on cash generation and opportunity for growth. The Fund has made an investment commitment of up to $5 million. As of December 31, 2007, the Fund's investment in HealthSPAC consisted of a 40% membership interest with a value of $40 thousand and $0.5 million in additional capital committed. Sam P. Douglass, a Director of the Fund and Kenneth Denos, Chief Executive Officer of the Fund serve as directors of HealthSPAC.

Infinia Corporation

Infinia Corporation, based in Kennewick, WA, is a leading developer of Stirling-cycle based products and technologies. Operating without internal combustion, a Stirling engine utilizes a temperature differential to drive a piston and produce electricity. Along with other Stirling based products, Infinia is focused on commercializing

a Stirling power system operating on concentrated solar energy for commercial and residential users. In June 2007, the Fund made an investment of $3.0 million in exchange for 666,667 Class A Preferred Shares in Infinia Corporation, to further the company's sales and product development programs and for company operations. As of December 31, 2007, the Fund recorded a significant increase in the valuation of Infinia Corporation, with an increase in unrealized appreciation of $17.7 million on its investments. Sharon Clayton, Co-Chairman of the Adviser, serves on the Board of Directors of Infinia Corporation. *See subsequent events, where an additional $5.0 million follow-on investment was made to Infinia Corporation on February 11, 2008.*

Nickent Golf, Inc.

Nickent Golf, Inc. ("Nickent") based in City of Industry, CA, is a market leader in the rapidly expanding, hybrid club segment of the golf industry and is an emerging leader in game-enhancement technology. Nickent's development process is driven by its dedication to advanced technologies and focus on design innovation. Nickent is the official OEM sponsor of the Golf Channel's Nationwide Tour coverage. In April 2007, the Fund made an initial investment of $2.0 million for 13% promissory note with a maturity date of August 3, 2007 for working capital for development and growth opportunities. The Fund made a follow-on investment with Nickent Golf, Inc. of $6.0 million for a 13% promissory note with a maturity date of June 20, 2011, for working capital, strategic marketing and global expansion, and received $2.0 million repayment of the bridge loan dated April 3, 2007. On August 16, 2007, the Fund made a follow-on investment with Nickent Golf, Inc., of $2.0 million in exchange for 2,000,000 Class A Preferred shares. Anthony R. Moore, a Director of the Fund and a director of the Adviser, serves on the board of directors of Nickent Golf, Inc. as its chairman. *See subsequent events, where an additional $1.0 million follow-on investment was made to Nickent on February 26, 2008.*

PalletOne, Inc.

The Fund understands that PalletOne, Inc. ("PalletOne") is the largest wooden pallet manufacturer in the United States, operating 16 facilities in eleven states. PalletOne also owns and operates a major Florida-based wood treating plant. PalletOne has a diverse customer base and competes with numerous other manufacturers on a regional basis. As of December 31, 2007, the Fund's investment in PalletOne consisted of 350,000 shares of common stock, which represent a fully diluted equity interest of approximate 21%. The investment was valued at zero as PalletOne and its industry has been impacted severely by the recession in the homebuilding industry. Gary Forbes, a Senior Vice President of the Fund, serves on the board of directors of PalletOne.

Riptide Entertainment LLC

Riptide Entertainment LLC ("Riptide") was formed to develop, own and operate family entertainment properties throughout the world. As of December 31, 2007, the Fund's investment in Riptide Entertainment had a cost and value of $4.9 million, which consisted of promissory notes having principal amounts totaling $4.8 million and a stated annual interest rate of 8%, together with an investment of $0.1 million in the form of a 64.67% member's interest in Riptide Entertainment. Anthony R. Moore, a Director of the Fund and Gary Forbes, a Senior Vice President of the Fund, serve as directors of Riptide. *See subsequent events, where an additional $1.6 million follow-on investment was made to Riptide on January 8, 2008.*

RP&C International Investments LLC

On August 11, 2006, the Fund committed to invest up to $11.1 million to acquire a 17.2% equity interest in RP&C International Investments LLC ("RP&C"). RP&C is an investment fund formed for the purpose of investing in mezzanine loans or preferred equity interests to be issued by nursing and residential care homes in the United Kingdom or Germany. Each eligible facility must be fully licensed, receive its cash flow directly or indirectly from governmental or government-supported sources in such jurisdictions and meet certain other operating criteria. This fund's investments in facilities are expected to have a term of one to four years, yield at least 9% per annum and benefit from a pledge of the equity in such facilities and various operating covenants and

conditions. The Fund understands that the total commitment to RP&C from all sources will be $60 million. As of December 31, 2007, the Fund's investment in RP&C represents an approximate 17% member's interest and consisted of a $3.3 million loan that is scheduled to earn interest at 9% payable quarterly in arrears. Anthony R. Moore, a Director of the Fund and Kenneth Denos, Chief Executive Officer of the Fund, serve on the Investment Committee of RP&C. *See subsequent events, where on February 8, 2008 the Fund received $2.2 million from RP&C.*

Sovereign Business Forms, Inc.

Sovereign Business Forms, Inc. ("Sovereign") was founded in 1996 to participate in the consolidation of the highly fragmented, wholesale business forms industry. Today, the Fund understands that Sovereign is one of the ten largest manufacturers and wholesalers of custom business forms in the United States. Sovereign operates five manufacturing plants with a combined market reach covering much of the central and eastern United States, Texas and Louisiana. As of December 31, 2007, the Fund's investment in Sovereign consisted of 29,854 shares of preferred stock, promissory notes having an aggregate principal amount of $5.2 million and bearing interest at an annual rate of 15%, and warrants to purchase up to 551,894, 25,070 and 273,450 shares of common stock of Sovereign at purchase prices of $1.00, $1.25 and $1.00 per share, respectively. The Fund believes its investment represents a fully diluted equity interest in Sovereign of 31%. As of December 31, 2007, the Fund's investment in Sovereign comprised 5% of its total net assets. The business forms industry is mature and highly competitive. For 2007, the Fund received dividends in the form of an additional 2,542 shares of preferred stock of Sovereign, to which Sovereign ascribed a value of $0.3 million. Gary Forbes, a Senior Vice President of the Fund, serves on Sovereign's board of directors.

Spectrum Management, LLC

Spectrum Management, LLC ("Spectrum") uses proprietary electronic tracking equipment and software, and a full suite of custom services to help client organizations protect or recover high-value merchandise and cash. This equipment and software also benefits law enforcement agencies by reducing the occurrence of robberies and by assisting in the apprehension of perpetrators. As of December 31, 2007, the Fund's investment in Spectrum Management consisted of 285,000 units of Class A Members' interest, a 16% subordinated promissory note in the amount of $1.3 million and a 16% subordinated promissory note in the amount of $0.4 million due May 28, 2011. The Fund believes its investment in Spectrum Management represents a fully diluted equity interest of 79%. As of December 31, 2007, the Fund's investment in Spectrum Management comprised in excess of 5% of the Fund's total net assets. Spectrum Management has a diverse customer base and its competition is limited. Gary Forbes, a Senior Vice President of the Fund, serves on the board of directors of Spectrum Management.

Off Balance Sheet Arrangements

As of December 31, 2007 and 2006, the Fund did not have any off-balance sheet liabilities that are reasonably likely to have a current or future material effect on the Fund's financial condition, other than the investment advisory and management agreement and the administration agreement, which are described below.

Contractual Obligations

The Fund has entered into five contracts under which it expects to have material future commitments, the Advisory Agreement between the Fund and the Adviser, pursuant to which the Adviser has agreed to serve as the Fund's investment advisor; and 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. See "—Portfolio Companies." For a discussion of the material terms of the Advisory Agreement and the Administration Agreement, see "—Overview – Expenses" and "Advisory and Administration Fees."

The remaining three commitments as of December 31, 2007 relate to the Fund's portfolio company investments and are summarized as follow (in thousands):

Portfolio Company	Original Commitment	Remaining Commitment
RP&C International Investments LLC	$ 11,100	$ 7,795
Riptide Entertainment, LLC	10,000	5,100
HealthSPAC, LLC	5,000	4,435
		$ 17,330

Each of these contracts may be terminated by either party without penalty upon not more than 60 days' written notice to the other.

Dividends

The Fund declared four dividends in 2007 totaling $0.50 per share. The 2007 dividends were 100% qualifying and classified as capital gain distributions. The Fund declared two dividends in 2006 totaling $2.625 per share. The 2006 dividends were 100% qualifying with $1.769 per share classified as ordinary income dividends and $0.856 per share classified as a capital gain distribution. The Fund did not declare any dividends for 2005.

Common Stock Repurchases

There were no common stock repurchases in 2007 or 2006.

Subsequent Events

On January 4, 2008, the U.S. Treasury Bills for $30.0 million matured and the Fund repaid its year-end margin loan.

On January 8, 2008, the Fund invested an additional $1.6 million as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. This investment is expected to fund the Ripley's Believe It or Not museum franchise location in London, UK.

On January 17, 2008, the Fund received $0.1 million from the dissolution of Equus Media Finance Company, LLC.

On January 17, 2008, the Fund invested $3.0 million in 1848 Capital Partners, LLC, an entertainment company.

On February 8, 2008, the Fund received $0.2 million from J.L. Madre, LLC in the form of return of capital and interest.

On February 8, 2008, the Fund received $2.2 million from RP&C Investment International, LLC the form of return of capital, realized capital gain and interest based on the refinancing of one of its properties.

On February 11, 2008, the Fund invested $5.0 million in Infinia Corporation, as a follow-on investment in the form of preferred stock.

On February 26, 2008, the Fund invested $1.0 million in Nickent Golf, Inc., as a follow-on investment in the form of preferred stock.

On February 19, 2008, the Fund revised its managed distribution policy to pay 10% of the Fund's market value based, based on the 2007 year-end closing price of $6.31 and announced the declaration of a first quarter dividend of $0.158 per share accordingly. This dividend is payable on March 31, 2008 to shareholders of record as of February 29, 2008. The dividend will be payable in shares of common stock or in cash by specific election of the shareholders, and such election must be made by March 24, 2008. The classification of this dividend 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.

Item 7A. ***Quantitative and Qualitative Information 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. In the future, the Fund may invest in companies outside the United States, including in Europe and Asia, which would give rise to exposure to foreign currency value fluctuations. The Fund does not use derivative financial instruments to mitigate any of 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 affect interest income. In addition, changes in market interest rates are not typically a significant factor in the determination of fair value of these debt securities, since the securities are generally held to maturity. The Fund determines their fair values based on the terms of the relevant debt security and the financial condition of the issuer.

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Equus Total Return, Inc. (formerly Equus II Incorporated):

We have audited the accompanying balance sheets of Equus Total Return, Inc. (a Delaware corporation), including the schedules of portfolio securities, as of December 31, 2007 and 2006, and the related statements of operations, changes in net assets and cash flows for each of the three years ended December 31, 2007, and the selected per share data and ratios for each of the three years ended December 31, 2007. These financial statements and selected per share data and ratios are the responsibility of the management of Equus Total Return, Inc. Our responsibility is to express an opinion on these financial statements and selected per share data and ratios based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were not engaged to examine management's assertion about the effectiveness of Equus Total Return, Inc.'s internal control over financial reporting as of December 31, 2007 included in the accompanying Management's Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Equus Total Return, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include investments in portfolio securities valued at (in thousands) $72,102 and $42,627 (69.9% and 45.8% of net assets) as of December 31, 2007 and 2006, respectively, whose values have been estimated by the Adviser and approved by the Board of Directors of Equus Total Return, Inc. in the absence of readily ascertainable market values. Those estimated values may differ materially from the values that would have been used had a ready market for the securities existed.

/s/ UHY LLP
UHY LLP

Houston, Texas
March 31, 2008

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Equus Total Return, Inc. (formerly Equus II Incorporated):

In our opinion, the accompanying selected per share data and ratios present fairly, in all material respects, the financial highlights of Equus Total Return, Inc. (formerly Equus II, Incorporated) (a Delaware corporation) for each of the two years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These selected per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these selected per share data and ratios based on our audit. We conducted our audit of these selected per share data and ratios in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP

Houston, TX
March 21, 2005

EQUUS TOTAL RETURN, INC.

BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

(in thousands, except per share amounts)	2007	2006
ASSETS		
Investments in portfolio securities at fair value (cost $55,283 and $33,335 respectively)	$ 72,102	$ 42,627
Restricted cash & temporary investments, at cost which approximates fair value	30,296	30,278
Cash	28	171
Temporary cash investments, at cost which approximates fair value	30,912	51,328
Accounts receivable	107	147
Accrued interest and dividends receivable due from portfolio companies	1,023	528
Deferred offering costs	—	584
Escrowed receivables, at fair value	262	203
Total assets	$ 134,730	$ 125,866
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 108	$ 229
Due to adviser	1,410	2,422
Borrowing under margin account	29,996	29,979
Total liabilities	31,514	32,630
Commitments and contingencies	—	—
Net assets:		
Preferred stock, $0.001 par value, 5,000 shares authorized, no shares outstanding	—	—
Common stock, $0.001 par value, 50,000 shares authorized, 8,401 and 8,164 shares outstanding, respectively	8	8
Additional paid-in capital	89,021	87,184
Undistributed net investment losses	(3,772)	(3,248)
Undistributed net capital gains	1,141	—
Unrealized appreciation of portfolio securities, net	16,818	9,292
Total net assets	$ 103,216	$ 93,236

Net assets per share	$ 12.29	$ 11.42

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(in thousands, except per share amounts)	2007	2006	2005
Investment income:			
Interest income from portfolio securities	$ 2,857	$ 3,647	$ 1,390
Dividend income from portfolio securities	254	547	632
Interest from temporary cash investments	1,746	1,822	505
Other income	—	—	3
Total investment income	4,857	6,016	2,530
Expenses:			
Management fee	1,730	1,752	1,714
Incentive fee	903	1,956	675
Director fees and expenses	381	441	386
Professional fees	860	1,020	960
Administrative fees	450	450	250
Mailing, printing and other expenses	261	227	239
Interest expense	83	157	141
Compensation expense	—	—	553
Franchise taxes	103	115	211
Special administrative fee	—	—	535
Offering costs	609	—	—
Total expenses	5,380	6,118	5,664
Net investment loss	(523)	(102)	(3,134)
Net realized gain on portfolio securities	5,264	19,012	1,237
Net unrealized appreciation (depreciation) of portfolio securities:			
End of year	16,818	9,292	14,043
Beginning of year			

	9,292	14,043	(4,574)
Net change in unrealized appreciation (depreciation) of portfolio securities	7,526	(4,751)	18,617
Net increase in net assets resulting from operations	$ 12,267	$ 14,159	$ 16,720
Net increase in net assets resulting from operations per share:			
Basic and diluted	$ 1.49	$ 1.78	$ 2.41
Weighted average shares outstanding			
Basic and diluted	8,251	7,949	6,948

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(in thousands, except per share amounts)	2007	2006	2005
Operations:			
Net investment loss	$ (523)	$ (102)	$ (3,134)
Net realized gain on portfolio securities	5,264	19,012	1,237
Net change in unrealized appreciation (depreciation) of portfolio securities	7,526	(4,751)	18,617
Net increase in net assets resulting from operations	12,267	14,159	16,720
Capital share transactions:			
Non-cash compensation expense	—	—	565
Increase from officers' notes settlement	—	—	23
Dividends declared	(4,123)	(19,455)	—
Shares issued in dividend	1,836	5,929	—
Options exercised by directors and officers	—	—	6,695
Increase (decrease) in net assets from capital share transactions	(2,287)	(13,526)	7,283
Increase in net assets	9,980	633	24,003
Net assets at beginning of year	93,236	92,603	68,600
Net assets at end of year	$ 103,216	$ 93,236	$ 92,603

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(in thousands, except per share amounts)	2007	2006	2005
Cash flows from operating activities:			
Interest and dividends received	$ 3,625	$ 4,739	$ 1,614
Cash paid to adviser, directors, banks and suppliers	(5,924)	(5,000)	(4,117)
Purchase of portfolio securities	(27,469)	(9,860)	(6,324)
Proceeds from dispositions of portfolio securities	6,823	44,029	10,958
Principal payments from portfolio securities	4,697	5,856	70
(Purchases) sales of restricted temporary cash investments	(18)	20,166	(26,227)
Net cash (used in) provided by operating activities	(18,265)	59,930	(24,026)
Cash flows from financing activities:			
Borrowings under margin account	89,957	129,868	192,850
Repayments under margin account	(89,940)	(149,835)	(166,883)
Dividends paid	(2,287)	(13,526)	(1,589)
Exercise of stock options	—	—	6,694
Cash paid for deferred costs	(25)	(584)	—
Payments received on officer notes	—	—	24
Net cash provided by (used in) financing activities	(2,294)	(34,077)	31,096
Net increase (decrease) in cash and cash equivalents	(20,559)	25,853	7,070
Cash and cash equivalents at beginning of year	51,499	25,645	18,575
Cash and cash equivalents at end of year	$ 30,940	$ 51,499	$ 25,645
Supplemental disclosure of cash flow information:			
Interest paid during the year	$ 74	$ 126	$ 95
Taxes paid during the year	$ 84	$ 115	$ 211

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

EQUUS TOTAL RETURN, INC.
STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
Reconciliation of increase in net assets from operations to net cash provided by (used in) operating activities:			
Net increase in net assets resulting from operations	$ 12,267	$ 14,159	$ 16,720
Adjustments to reconcile increase in net assets from operations to net cash provided by (used in) operating activities:			
Gain realized on dispositions of portfolio securities, net	(5,264)	(19,012)	(1,237)
(Increase) decrease in unrealized appreciation, net	(7,526)	4,751	(18,617)
Increase in accrued interest receivable due from portfolio companies	(495)	(26)	(61)
Increase in escrowed receivables	(59)	—	—
Decrease in deferred offering costs	609	—	—
Decrease (increase) in accounts receivable and other	40	(97)	55
Accrued interest or dividends exchanged for portfolio securities	(737)	(1,252)	(910)
Non-cash compensation expense	—	—	553
Increase (decrease) in accounts payable and accrued liabilities	(121)	(69)	199
Increase (decrease) in due to adviser	(1,012)	1,285	795
Purchase of portfolio securities	(27,469)	(9,860)	(6,324)
Proceeds from dispositions of portfolio securities	6,823	44,029	10,958
Principal payments from portfolio securities	4,697	5,856	70
(Purchases) sales of restricted temporary cash investments	(18)	20,166	(26,227)
Net cash provided by (used in) operating activities	$ (18,265)	$ 59,930	$ (24,026)

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EQUUS TOTAL RETURN, INC.

SELECTED PER SHARE DATA AND RATIOS
FOR THE FIVE YEARS ENDED DECEMBER 31, 2007

	2007	2006	2005	2004	2003
Selected per share data:					
Investment income	$ 0.59	$ 0.76	$ 0.36	$ 0.96	$ 1.15
Expenses	0.65	0.77	0.81	0.39	0.60
Net investment (loss) income (1)	(0.06)(1)	(0.01)	(0.45)	0.57	0.55
Net realized gain (loss) on portfolio securities	0.64	2.39	0.18	(0.84)	(0.88)
Net change in unrealized appreciation (depreciation) of portfolio securities	0.91	(0.60)	2.68	0.46	(0.35)
Net increase (decrease) in net assets resulting from operations	1.49	1.78	2.41	0.19	(0.68)
Capital transactions:					
Officer's notes settlement	—	—	—	0.10	—
Dividends declared	(0.50)	(2.63)	—	(0.57)	(0.72)
Repurchase of common stock	—	—	—	0.18	—
Dilutive effect of shares issued in common stock dividend and options	(0.12)	(0.28)	(0.40)	(0.17)	(0.14)
Net decrease in assets from capital transactions	(0.62)	(2.91)	(0.40)	(0.46)	(0.86)
Net increase (decrease) in net assets	0.87	(1.13)	2.01	(0.27)	(1.54)
Net asset value at beginning of year	11.42	12.55	10.54	10.81	12.35
Net asset value at end of year	$ 12.29	$11.42	$12.55	$10.54	$10.81
Weighted average number of shares outstanding during year (in thousands)	8,251	7,949	6,948	6,462	6,244
Market value per share at end of year	$ 6.31	$ 8.54	$ 8.93	$ 7.71	$ 8.05
Selected ratios:					
Ratio of total operating expenses to average net assets	5.48%	6.58%	7.03%	3.55%	5.07%
Ratio of net investment (loss) income to average net assets	(0.53)%	(0.11)%	(3.89)%	5.29%	4.58%
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	12.49%	15.24%	20.74%	1.76%	(5.75)%
Total Return	(20.26)%	25.03%	15.82%	2.90%	21.23%

(1) Net investment loss of ($0.06) is calculated as the net investment loss of ($0.5 million divided by the weighted average number of shares outstanding during the year of 8,251,000).

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

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)
				(amounts in thousands)		
Control Investments: Majority-owned(7):						
Creekstone Florida Holdings, LLC Houston, TX	Real estate	December 2005(4)	17-19.8% subordinated promissory note(1)	$4,000	$ 4,166	$ 4,166
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
			8% promissory notes	4,835	4,835	4,835
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A equity interest		2,850	8,381
			16% subordinated promissory note(1)(2)	1,304	1,304	1,304
			12.75% subordinated promissory note(2)	386	386	386
Total Control Investments: Majority-owned (represents 33% of total investments at fair value)					**$18,606**	**$24,137**
Control Investments: Non-majority-owned(6):						
ConGlobal Industries Holding, Inc. Houston, TX	Shipping products and services	February 1997	24,397,303 shares of common stock		1,370	—
			Promissory note(2)	3,266	3,266	2,153
			Member interest in CCI-ANI Finance, LLC(2)		2,734	1,803
			Member interest (66.7%) in JL Madre, LLC(1)		1,000	1,035
			Member interest (28.3%) in JL Madre(1) Equipment, LLC		69	119
HealthSPAC, LLC El Segundo, CA	Healthcare	December 2006(4)	Member interest (40%)		565	565
Total Control Investments: Non-majority-owned (represents 8% of total investments at fair value)					**$ 9,004**	**$ 5,675**
Total Control Investments: (represents 41% of total investments at fair value)					**$27,610**	**$29,812**
Affiliate Investments(5):						
Infinia Corporation Kennewick, WA	Alternative energy	June 2007(4)	666,667 Class A Shares Preferred Stock		3,000	20,740
Nickent Golf, Inc. City of Industry, CA	Entertainment and leisure	June 2007(4)	13% Promissory Note	6,066	6,066	6,066
			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. South Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock		350	—
RP&C International Investments LLC New York, NY	Healthcare	September 2006(4)	Membership Interest (17.2%)		3,305	3,305
Total Affiliate Investments (represents 45% of total investments at fair value)					**$14,721**	**$32,111**

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES—(Continued)
DECEMBER 31, 2007

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	Principal	Cost of Investment	Fair Value(3)
				(amounts in thousands)		
Non-Affiliate Investments (less than 5% owned)						
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		—	—
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		—	—
Total Non-Affiliate Investments (represents 14% of total investments at fair value)					**$12,952**	**$10,179**
Total Investments					**$55,283**	**$72,102**

(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.

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES—(Continued)
DECEMBER 31, 2007

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, during the year ended December 31, 2007, the Fund was considered to have a controlling interest in ConGlobal Industries, Inc., Creekstone Florida Holdings, LLC, Equus Media Development Company, LLC, HealthSPAC, LLC, PalletOne, Inc., Sovereign Business Forms, Inc., Spectrum Management, LLC, and Riptide Entertainment, LLC.

Income was earned in the amount of $2.2 million, $4,2 million, and $2.0 million for the years December 31, 2007, 2006 and 2005, respectively, on portfolio securities of companies in which the Fund has a controlling interest. Income was earned in the amount of $0.3 million, $15,000 and $17,000 for the years ended December 31, 2007, 2006 and 2005, respectively, on portfolio securities of companies that are affiliates of the Fund but are not controlled by the Fund.

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 investments in portfolio securities held by the Fund are becoming more geographically diversified. Many of the Fund's portfolio companies (except ConGlobal Industries, Inc., PalletOne, Inc., Riptide Entertainment LLC, RP&C International Investments LLC and HealthSPAC, LLC) are headquartered in Texas, although several have significant operations in other states.

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

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
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%

Three notes receivable included in secured and subordinated debt with an estimated fair value of $6.8 million provide that interest is paid in kind or that the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. In addition, cash payments of interest are being made currently on notes aggregating $13.2 million in fair value.

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES—(Continued)
DECEMBER 31, 2007

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

Industry	Fair Value	Fair Value as Percentage of Net Assets
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	3.7%
Total	$72,102	69.9%

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

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2006

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	Principal	Cost of Investment	Fair Value(3)
				(amounts in thousands)		
Control Investments: Majority-owned(8):						
Cedar Lodge Holding, Inc. Houston, TX	Real estate	December 2005(4)	5,000 shares @ $100/sh of common stock		$ 500	$ 629
			18% -19.8% promissory note(1)	$ 1,731	1,731	1,845
Creekstone Florida Holdings, LLC Houston, TX	Real estate	December 2005(4)	17-19.8% subordinated promissory note(1)	4,223	4,223	4,223
Riptide Entertainment, LLC New York, NY	Entertainment and leisure	December 2005(4)	Member interest (64.67%)		65	65
			8% promissory notes	1,000	1,000	1,000
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A equity interest		2,850	8,650
			16% subordinated promissory note(1)(2)	1,304	1,304	1,304
			12.75% subordinated promissory note(2)	386	386	386
TurfGrass Holdings, Inc. Houston, TX	Residential building products	May 1999	1,000 shares of common stock		960	—
Total Control Investments: Majority-owned (represents 43% of total investments at fair value)					**$13,019**	**$18,102**
Control Investments: Non-majority-owned(7):						
ConGlobal Industries Holding, Inc.	Shipping products and services	February 1997	24,397,303 shares of common stock		1,370	500
			Promissory note(2)	3,117	3,117	3,117
			Member interest in CCI-ANI Finance, LLC(2)		2,610	2,610
			Member interest (66.7%) in JL Madre, LLC(1)		1,000	1,034
			Member interest (28.3%) in JL Madre(1) Equipment, LLC		69	117
HealthSpac, LLC El Segundo, CA	Healthcare	December 2006(4)	Member interest (40%)		40	40
Total Control Investments: Non-majority-owned (represents 17% of total investments at fair value)					**$ 8,206**	**$ 7,418**
Total Control Investments: (represents 60% of total investments at fair value)					**$21,225**	**$25,520**
Affiliate Investments(6):						
PalletOne, Inc. South Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock		350	4,500
RP&C International Investments LLC New York, NY	Healthcare	September 2006(4)	Membership Interest (17.2%)		1,296	1,296
Total Affiliate Investments (represents 13% of total investments at fair value)					**$ 1,646**	**$ 5,796**

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES—(Continued)
DECEMBER 31, 2006

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Type of Securities	Principal	Cost of Investment	Fair Value(3)
				(amounts in thousands)		
Non-Affiliate Investments (less than 5% owned):						
Alenco Window Holdings, LLC Houston, TX	Residential building products	February 2001	32.25% membership interest (escrow)		$ —	$ 92
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock		1,795	250
			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		—	—
The Drilltec Corporation Houston, TX	Industrial products and services	August 1998	Prime plus 9.75% promissory note(2)	$1,000	1,000	3,000
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	27,312 shares of preferred stock(1)(2)		2,731	2,731
			15% promissory notes(1)(2)	4,938	4,938	4,938
			Warrant to buy 551,894 shares of common stock at $1 per share through Aug 2006		—	197
			Warrant to buy 25,070 shares of common stock at $1.25 per share through Oct 2007		—	5
			Warrant to buy 273,450 shares of common stock at $1 per share through Oct 2009		—	98
Total Non-Affiliate Investments (represents 27% of total investments at fair value)					**$ 10,464**	**$ 11,311**
Total Investments					**$ 33,335**	**$ 42,627**

(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) Investments disposed of prior to December 31, 2006. Included in this table due to assets related to these investments in the form of cash, escrowed assets, options or other equity interests retained by the Fund as of December 31, 2006.
(6) 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.
(7) 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.
(8) 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.

EQUUS TOTAL RETURN, INC.

SCHEDULE OF PORTFOLIO SECURITIES—(Continued)
DECEMBER 31, 2006

The Fund's investments in portfolio securities consist of the following types of securities as of December 31, 2006 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Secured and subordinated debt	$17,476	$19,591	21.1%
Limited liability company	8,153	14,126	15.2%
Common stock	3,180	5,629	6.0%
Preferred stock	4,526	2,981	3.2%
Options and warrants	—	300	0.3%
Total	$33,335	$42,627	45.8%

Three notes receivable included in secured and subordinated debt with an estimated fair value of $6.1 million provide that interest is paid in kind or that the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. In addition, cash payments of interest are being made currently on notes aggregating $13.3 million in fair value.

The following is a summary by industry of the Fund's investments as of December 31, 2006 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Business products and services	$18,559	20.1%
Shipping products and services	11,878	12.7%
Real estate	6,697	7.2%
Industrial products and services	3,000	3.2%
Healthcare	1,336	1.4%
Entertainment and leisure	1,065	1.1%
Residential building products	92	0.1%
Total	$42,627	45.8%

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

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007, 2006 AND 2005

(1) ORGANIZATION AND BUSINESS PURPOSE

Equus Total Return, Inc. (the "Fund," "EQS"), 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 ("1940 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 has entered into a new 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.

(2) LIQUIDITY AND FINANCING ARRANGEMENTS

Liquidity and Revolving Line of Credit—As of December 31, 2007, the Fund had cash and temporary cash investments of $30.9 million. The Fund had $72.1 million of its total assets of $134.7 million invested in portfolio securities. $30.3 million of its assets were restricted, where $30.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund's pass-through tax treatment and $0.3 million for the required 1% brokerage deposit. These securities are held by a securities

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on January 3, 2008.

As of December 31, 2006, the Fund had cash and temporary cash investments of $51.5 million. The Fund had $42.6 million of its total assets of $125.9 million invested in portfolio securities. $30.3 million of its assets were restricted, where $30.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain the Fund's pass-through tax treatment and $0.3 million for the 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 January 4, 2007.

On August 18, 2006, the Fund entered into a $10.0 million revolving line of credit agreement (the "Credit Facility") with Regions Bank. The Fund can borrow up to $10.0 million under the Credit Facility, subject to a borrowing base equal to 20% of the value of the Fund's eligible portfolio assets. The Credit Facility bears a floating interest rate of either LIBOR plus 2.5% or the prime rate, at the Fund's discretion. The Credit Facility is secured by substantially all of the Fund's portfolio assets and securities and contains certain restrictive covenants, including, but not limited to, the maintenance of certain financial ratios and certain limitations on indebtedness, liens, sales of assets, mergers and transactions with affiliates. To date, the Fund has not borrowed any amounts under the Credit Facility. The Fund is currently considering other financing arrangements and has not renewed the expired Credit Facility.

During the years ended December 31, 2007, 2006 and 2005, the amount of interest and loan fees paid in cash was $0.1 million, $0.2 million, $0.1 million, respectively.

As of December 31, 2007, the Fund had total commitments of $17.3 million with $7.8 million, $4.4 million committed to RP&C and HealthSPAC, respectively, which are both in the healthcare sector. Another $5.1 million commitment was made to Riptide Entertainment, LLC.

RIC Borrowings and Restricted Temporary Cash Investments—During 2007 and 2006, 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.

At 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.

At December 31, 2006, 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 were sold and the total amount borrowed was repaid on January 4, 2007.

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

(3) SIGNIFICANT ACCOUNTING POLICIES

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

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. 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 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.

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

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 $72.1 million (including no publicly traded securities) and $42.6 million (including no publicly traded securities) as of December 31, 2007 and 2006, 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.

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

Offering costs of $0.6 million were expensed during the third quarter of 2007 as the Fund abandoned the shareholders' proposal authorizing the Fund to offer and sell, or to issue rights to acquire shares of its common stock at a price below the net asset value of such stock.

Escrowed Receivables, at Estimated Fair Value—In May of 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. As of December 31, 2007, the amount receivable from the Drilltec escrow is valued at $0.3 million. The Fund is not aware of any claims against the escrow that have been made as of December 31, 2007 and is anticipating a final payment from The Drilltec Corporation escrow account by May 2008.

In February of 2007, the Fund received $0.1 million from Doane PetCare Enterprises, Inc. ("Doane"). The Fund booked the $0.1 million as an escrow receivable as of December 31, 2006. This Doane payment is expected to be the final payment from escrow for the sale of Doane, which was sold in October of 2005. As of December 31, 2006, the amount receivable from the Alenco escrow is valued at $0.1 million. The Fund is not aware of any claims against the escrow that have been made as of December 31, 2006 and received a final payment in full for the escrow in May 2007.

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

The Fund classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in companies in which EQS owns more than 25% of the voting securities or maintains greater than 50% of the board representation. Under the 1940 Act, "Affiliate

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

Investments" are defined as those non-control investments in companies in which EQS owns between 5% and 25% of the voting securities. Under the 1940 Act, "Non-affiliate Investments" are defined as investments that are neither Control Investments nor Affiliate Investments.

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.

Stock-Based Compensation—The Fund accounted for stock-based compensation using the intrinsic value method in accordance with the provisions of APB No. 25 through June 30, 2005. The Board of Directors cancelled the Stock Incentive Plan as of June 30, 2005.

The weighted average fair value of the stock options granted pursuant to the Fund's stock option plans during 2005 was zero per share. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used:

	2005
Expected life	3 years
Risk-free interest rate	3.61%
Volatility	19.58%
Dividend yield	7.41%

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R is effective beginning with the first interim period of the fiscal year beginning after June 15, 2005. Since the Fund cancelled the stock option plan on June 30, 2005, the adoption of SFAS No. 123R had no impact on the Fund's net assets and results of operations.

Had the Fund accounted for the options using the fair value method under SFAS No. 123R, the increase in net assets from operations for the year ended December 31, 2005 would have been (in thousands, except per share amounts):

	2005
Increase in net assets from operations, as reported	$ 16,720
Stock-based employee compensation expense included in increase in net assets from operations	553
Stock-based employee compensation expense determined using fair value method	(46)
Pro forma increase in net assets from operations	$ 17,227
Net increase in net assets from operations per share	
Basic, as reported	$ 2.41
Basic, pro-forma	$ 2.48
Diluted, as reported	$ 2.41
Diluted, pro-forma	$ 2.48

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

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 revenues and expenses and therefore has the characteristics of an income tax. As a result, the Fund recorded $0.1 million in state income tax for the year ended December 31, 2007 that is solely attributable to the Texas margin tax.

Reclassification—Certain amounts for the years ended December 31, 2006 and 2005 have been reclassified in the comparative financial statements to be comparable to the presentation in the year ended December 31, 2007. These reclassifications have no effect on net income or net assets.

(4) RELATED PARTY TRANSACTIONS

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 one common director. 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 officer of the Fund and a previous officer of the Fund who resigned with the change to the new adviser, Moore Clayton Capital Advisors, Inc. See Footnote 5 "Management Agreements" for discussion of fees paid by the Fund to the Adviser and Administrator.

The previous officer of the Fund was paid $0.2 million after June 30, 2005 through December 31, 2005 to principally facilitate the sale of Champion Window Holdings, Inc. He was paid $0.2 million in January 2006 when the transaction was completed. As directors of Champion Window Holdings, Inc., the prior owners of Equus Capital Management Corporation were paid $50,000 each in January 2006 for two years of director's fees for consummating the transaction.

On June 30, 2005, the Fund retained Moore Clayton Capital Advisors, Inc. (the "Adviser") to become the Fund's investment adviser and Equus Capital Administration Company, Inc. (the "Administrator") to provide certain investment administrative services to the Fund. Subject to the supervision of the board of directors of the Fund, the Adviser and Administrator perform or provide for the management, administration, investment advisory and other services necessary for the operation of the Fund.

(5) MANAGEMENT AGREEMENTS

The Fund has entered into a new investment advisory agreement dated June 30, 2005 (the "Advisory Agreement") with Moore Clayton Capital Advisors, Inc. (the "Adviser"). This agreement was renewed in June 2007. Pursuant to the Advisory Agreement, the Adviser performs certain investment advisory services that are

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

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 Moore, Clayton & Co., Inc., 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 has also entered into a new administration agreement dated June 30, 2005 ("Administration Agreement") with Equus Capital Administration Company, Inc. (the "Administrator"). This agreement was renewed in June 2007. The Fund agreed to reimburse the Administrator certain one time costs and expenses ("Special Administrative Fee") associated with the change in administrators. The Special Administrative Fee, in the amount of $0.5 million, was accrued to expense at June 30, 2005, and paid to the Administrator in the third quarter of 2005. 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, excluding the one-time Special Administrative Fee.

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).

Prior to entering into the Advisory and Administration Agreements, the Fund was a party to a management agreement with Equus Capital Management Corporation ("ECMC") that was initially approved by the Fund's stockholders at a special meeting held on April 9, 1997. Under that agreement, ECMC provided both advisory and administration services. ECMC received a management fee at an annual rate of 2% of the net assets of the Fund, paid quarterly in arrears. The management fee in the old agreement was calculated identically to the advisory fee in the new agreement. Additionally, ECMC received compensation for providing certain investor communication services. The accompanying Statements of Operations include administrative fees of $25,000 related to such services for the year ended December 31, 2005.

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. Effective July 1, 2006, a new quarterly fee of $2,500 was approved and 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

EQUUS TOTAL RETURN, INC.

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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.

(6) 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 distributions of ordinary income for 2007, 2006, or 2005 under income tax regulations. For the year ended December 31, 2007, the Fund had net investment loss for book purposes of $0.5 million and $0.5 million for tax purposes. During 2007, the Fund had a net capital gain for book purposes of $5.3 million and a net capital gain for tax purposes of $5.1 million. As of December 31, 2007, the Fund has no capital loss carry-forward as it was fully utilized to offset capital gains in 2006. 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 $23.4 million and unrealized depreciation of $6.5 million for book purposes, or net unrealized appreciation of $16.8 million. The Fund had unrealized appreciation of $26.4 million and unrealized depreciation of $7.0 million for tax purposes, or net unrealized appreciation of $19.4 million as of December 31, 2007.

For the year ended December 31, 2006, the Fund had net investment loss for book purposes of approximately $0.1 and $0.1 million for tax purposes. During 2006, the Fund had a net capital gain for book purposes of approximately $19.0 million and a net capital gain for tax purposes of $21.4 million. As of December 31, 2006, the Fund has no capital loss carry-forward as it was fully utilized to offset capital gains in 2006. The aggregate cost of investments for federal income tax purposes as of December 31, 2006 was $30.9 million. Such investments had unrealized appreciation of approximately $12.7 million and unrealized depreciation of $3.4 million for book purposes, or net unrealized appreciation of approximately $9.3 million. The Fund had unrealized appreciation of approximately $16.2 million and unrealized depreciation of approximately $4.2 million for tax purposes, or net unrealized appreciation of approximately $12.0 million as of December 31, 2006.

For the year ended December 31, 2005, the Fund had net investment loss for book purposes of $3.1 million and $2.7 million for tax purposes. During 2005, the Fund had a net capital gain for book purposes of $1.2 million and a net capital gain for tax purposes of $1.5 million. As of December 31, 2005, the Fund has a capital loss carry-forward of $14.3 million, which may be used to offset future taxable capital gains. The aggregate cost of investments for federal income tax purposes as of December 31, 2005 was $49.2 million. Such investments had unrealized appreciation of $34.5 million and unrealized depreciation of $20.5 million for book purposes, or net unrealized depreciation of $14.0 million. They had unrealized appreciation of $40.0 million and unrealized depreciation of $20.9 million for tax purposes, or net unrealized appreciation of $19.1 million at December 31, 2005.

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, 2007 or December 31, 2007. 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.

All of the Fund's state income tax returns for 2004 through 2006 remain open to examination.

(7) 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. For a discussion of the material terms of the Advisory Agreement and the Administration Agreement, see Note 5.

The remaining three commitments as of December 31, 2007 relate to the Fund's portfolio company investments and are summarized as follows (in thousands):

Portfolio Company	Original Commitment	Remaining Commitment
RP&C International Investments LLC	$ 11,100	$ 7,795
Riptide Entertainment, LLC	10,000	5,100
HealthSPAC, LLC	5,000	4,435
		$ 17,330

Each of these contracts may be terminated by either party without penalty upon not more than 60 days' written notice to the other.

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

(8) DIVIDENDS

The Fund declared four dividends in 2007 amounting to $4.1 million ($0.50 per share). The Fund paid $2.3 million in cash and issued 236,930 additional shares of stock in 2007. The 2007 dividends were 100% qualifying and classified as capital gain distributions.

The Fund declared two dividends during 2006 amounting in total to $19.5 million ($2.625 per share). The 2006 dividends were primarily the result of the net taxable realized gain from the sale of Champion Window Holdings, Inc. The 2006 dividends were paid in additional shares of common stock or in cash by specific election made by each shareholder. The Fund paid $13.5 million in cash for both dividends ($13.0 million paid on March 23, 2006 and $0.5 million paid on December 7, 2006) and issued 787,099 additional shares of stock (729,773 shares at $7.489 per share and 57,326 shares at $8.081 per share). On October 23, 2006, the Fund announced a quarterly managed dividend policy where the Fund hopes to issue dividends at a minimum annual rate of $0.50 per share.

During the year ended December 31, 2005, the Fund declared no dividends.

(9) PORTFOLIO SECURITIES

During the year ended December 31, 2007, the Fund invested $13.1 million in five new companies and made follow-on investments of $15.1 million in eight portfolio companies, including $0.7 million in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on promissory notes. In addition, the Fund realized a net capital gain of $5.3 million.

During the year ended December 31, 2006, the Fund invested $0.4 million in two new companies and made follow-on investments of $10.7 million in nine portfolio companies, including $1.3 million in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on promissory notes. In addition, the Fund realized a net capital gain of $19.0 million during the year ended December 31, 2006.

During the year ended December 31, 2005, the Fund invested $5.0 million in three new companies and made follow-on investments of $2.2 million in six portfolio companies, including $0.9 million in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on a promissory note. In addition, the Fund realized a net capital gain of $1.2 million during the year ended December 31, 2005.

(10) STOCK OPTION PLAN

In 1997, stockholders approved the Equus II Incorporated 1997 Stock Incentive Plan ("Stock Incentive Plan"), which authorizes the Fund to issue options to the directors and officers of the Fund in an aggregate amount of up to 20% of the outstanding shares of common stock of the Fund. The Stock Incentive Plan provides that each director who is not an officer of the Fund is, on the first business day following each annual meeting, granted an incentive stock option to purchase 2,200 shares of the Fund's common stock. Options are issued to the officers of the Fund at the discretion of the compensation committee. The options have a ten year life and vest 50% six months after the grant date and 16 2/3% on the first, second and third anniversaries of the date of the grant.

On May 7, 2004, options to acquire a total of 15,400 shares at $7.72 per share were issued to the non-officer directors. Accounting principles generally accepted in the United States of America require that the options be

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2007, 2006 AND 2005

accounted for using variable plan accounting. Variable plan accounting resulted in non-cash compensation expense of $0.6 million during the year ended December 31, 2005.

Effective June 30, 2005, the Stock Incentive Plan was terminated. (At the date of termination all options in the money were made fully vested). Options to purchase 869,900 shares (all options whose exercise price was less than the $8.38 market price on June 14, 2005) were exercised by five officers and seven directors of the Fund on June 30, 2005, and the Fund received $6.7 million in cash from the exercise of such options. Of the 869,900 shares exercised, 170,673 were not fully vested and in the money. The remainder of the options, whose exercise price was greater than the $8.38 market price of June 14, 2005, were suspended and cancelled per signed agreement with each officer and director.

The following table reflects stock option activity for the year ended December 31, 2005:

	2005
Options outstanding at the beginning of the year	809,000
Options granted during the year	150,000
Options exercised during the year	(869,900)
Options surrendered during the year	(89,100)
Options expired during the year	—
Options outstanding at the end of the year	—
Options exercisable at the end of the year	—

(11) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "*Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*". FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's consolidated financial statements in accordance with SFAS No. 109, "*Accounting for Income Taxes*". It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN No. 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN No. 48. The cumulative effect of applying the provisions of FIN No. 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The Fund has adopted FIN No. 48 which will have no material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*". SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under this standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities that are carried at fair value as a recurring basis in the financial statements. The FASB did announce a one year deferral for the implementation of SFAS No. 157 for other non-financial assets and liabilities. In February 2008, FASB issued FASB Staff Position No. FAS 157-2. This FSP defers the effective

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
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date of Statement 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Fund believes that the adoption of SFAS No. 157 will not have a material impact on its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*". This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Fund believes that the adoption of SFAS No. 159 will not have a material impact on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R, *"Business Combinations,"* ("SFAS No. 141R") which replaces SFAS No. 141. SFAS No. 141R requires most assets acquired and liabilities assumed in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair value as of the date of the acquisition. SFAS No. 141R also requires that acquisition related costs and restructuring costs be recognized separately from the business combination. SFAS No. 141R is effective for business combinations completed in fiscal years beginning after December 15, 2008. The Fund believes that the adoption of SFAS No. 141R will not have a material impact on its financial position, results of operation or cash flows.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51"* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interest of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Fund believes that the adoption of SFAS No. 160 will not have a material impact on its financial position, results of operation or cash flows.

(12) SUBSEQUENT EVENTS

On January 4, 2008, the U.S. Treasury Bills for $30.0 million matured and the Fund repaid its year-end margin loan.

On January 8, 2008, the Fund invested an additional $1.6 million as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. This investment is expected to fund the Ripley's Believe It or Not museum franchise location in London, UK.

On January 17, 2008, the Fund received $0.1 million from the dissolution of Equus Media Finance Company, LLC.

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
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On January 17, 2008, the Fund invested $3.0 million in 1848 Capital Partners, LLC, an entertainment company.

On February 8, 2008, the Fund received $0.2 million from J.L. Madre, LLC in the form of return of capital and interest.

On February 8, 2008, the Fund received $2.2 million from RP&C Investment International, LLC in the form of return of capital, realized capital gain and interest based on the refinancing of one of its properties.

On February 11, 2008, the Fund invested $5.0 million in Infinia Corporation, as a follow-on investment in the form of preferred stock.

On February 26, 2008, the Fund invested $1.0 million in Nickent Golf, Inc., as a follow-on investment in the form of preferred stock.

On February 19, 2008, the Fund revised its managed distribution policy to pay 10% of the Fund's market value based, based on the 2007 year-end closing price of $6.31 and announced the declaration of a first quarter dividend of $0.158 per share accordingly. This dividend is payable on March 31, 2008 to shareholders of record as of February 29, 2008. The dividend will be payable in shares of common stock or in cash by specific election of the shareholders, and such election must be made by March 24, 2008. The classification of this dividend 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.

(13) SELECTED QUARTERLY DATA (UNAUDITED) (in thousands, except per share amounts)

	Year Ended December 31, 2007				
	Quarter Ended March 31, 2007	Quarter Ended June 30, 2007	Quarter Ended September 30, 2007	Quarter Ended December 31, 2007	Total
Total investment income	$ 1,211	$ 1,271	$ 1,151	$ 1,224	$ 4,857
Net investment (loss) gain	5	(711)	(289)	472	(523)
Increase (decrease) in stockholders equity resulting from operations	(572)	661	(3,799)	15,977	12,267
Basic and diluted earnings (loss) per common share	$ (0.07)	$ 0.08	$ (0.46)	$ 1.94	$ 1.49

	Year Ended December 31, 2006				
	Quarter Ended March 31, 2006	Quarter Ended June 30, 2006	Quarter Ended September 30, 2006	Quarter Ended December 31, 2006	Total
Total investment income	$ 1,281	$ 1,330	$ 1,381	$ 2,024	$ 6,016
Net investment (loss) gain	(704)	(71)	(101)	774	(102)
Increase in stockholders equity resulting from operations	439	4,242	8,636	842	14,159
Basic and diluted earnings per common share	$ 0.06	$ 0.52	$ 1.07	$ 0.10	$ 1.78

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

None.

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

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

Evaluation of Disclosure Controls and Procedures

The Fund conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (Disclosure Controls) as of the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including the Fund's CEO and CFO. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the Fund's reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to the Fund's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Fund's quarterly evaluation of Disclosure Controls includes an evaluation of some components of its internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below.

The evaluation of the Fund's Disclosure Controls included a review of the controls' objectives and design, the Fund's implementation of the controls and the effect of the controls on the information generated for use in this Form 10-K. In the course of the controls evaluation, the Fund reviewed identified data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in the Fund's periodic reports on Form 10-Q and Form 10-K. Many of the components of the Fund's Disclosure Controls are also evaluated on an ongoing basis by a third-party consultant and the Accounting Department. The overall goals of these various evaluation activities are to monitor the Fund's Disclosure Controls, and to modify them as necessary. The Fund's intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Based upon the controls evaluation, the Fund's CEO and CFO have concluded that, subject to the limitations noted in this Part II, Item 9A, as of the end of the period covered by this Form 10-K, the Fund's Disclosure Controls were effective to provide reasonable assurance that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information relating to the Fund's consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when its periodic reports are being prepared.

Management Report on Internal Control Over Financial Reporting

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

Management assessed its internal control over financial reporting as of December 31, 2007, the end of its fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed both by a third-party consultant and our Accounting Department.

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

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Information about the Directors and Executive Officers of the Fund, the Fund's Audit Committee and the Nominating and Corporate Governance Committee, the Fund's code of ethics applicable to the principal executive officer and principal financial officer, and Section 16(a) Beneficial Ownership Reporting Compliance is incorporated by reference to the Fund's Definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, on or prior to April 30, 2007 (the "2007 Proxy Statement").

The Fund has adopted a code of business conduct and ethics applicable to the Fund's directors, officers (including the Fund's principal executive officer, principal financial officer and controller) and employees, known as the Code of Business Conduct and Ethics. A copy of the Code of Business Conduct and Ethics is available to any person, without charge, upon request addressed to Equus Total Return, Inc., Attention: Corporate Secretary, 2727 Allen Parkway, 13th Floor, Houston, TX 77019. In the event that the Fund amends or waives any of the provisions of the Code of Business Conduct and Ethics applicable to the Fund's principal executive officer, principal financial officer, or controller, the Fund intends to disclose the same on its website at www.equuscap.com.

Item 11. ***Executive Compensation***

Information regarding Executive Compensation is incorporated by reference to the Fund's 2007 Proxy Statement.

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

Information regarding Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans is incorporated by reference to the Fund's 2007 Proxy Statement.

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

Information regarding Certain Relationships and Related Transactions is incorporated by reference to the Fund's 2007 Proxy Statement.

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

Information regarding Principal Accountant Fees and Services is incorporated by reference to the Fund's 2007 Proxy Statement.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a)(1) Financial Statements

All other information required in the financial statement schedules has been incorporated in the financial statements or notes thereto or has been omitted since the information is not applicable or not present in amounts sufficient to require submission of the schedule.

(a)(3) Exhibits

3. Articles of Incorporation and by-laws.
   - (a) Restated Certificate of Incorporation of the Fund, as amended. [Filed herewith.]
   - (b) Certificate of Merger dated June 30, 1993, between the Fund and Equus Investments Incorporated. [Filed herewith.]
   - (c) Amended and Restated Bylaws of the Fund. [Filed herewith.]

10. Material Contracts.
   - (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.]

(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) [Filed herewith.]

(g) Loan Agreement dated August 18, 2006, between the Fund and Regions Bank. [Filed herewith.]

14. Code of Ethics (meeting the requirements of Section 406 of the Sarbanes-Oxley Act of 2002) [To be filed as an exhibit to the 2007 Proxy Statement.]

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 Certification

(1) Certification by Chairman and Chief Executive Officer

(2) Certification by Chief Financial Officer

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

EQUUS TOTAL RETURN, INC.

Date: March 31, 2008

/S/ L'SHERYL D. HUDSON

L'Sheryl D. Hudson
Chief Financial Officer

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

Signature	Title	Date
/S/ RICHARD F. BERGNER **Richard F. Bergner**	Director	March 31, 2008
/S/ CHARLES M. BOYD, MD **Charles M. Boyd**	Director	March 31, 2008
/S/ ALAN D. FEINSILVER **Alan D. Feinsilver**	Director	March 31, 2008
/S/ GREGORY J. FLANAGAN **Gregory J. Flanagan**	Director	March 31, 2008
/S/ HENRY W. HANKINSON **Henry W. Hankinson**	Director	March 31, 2008
/S/ ROBERT L. KNAUSS **Robert L. Knauss**	Chairman of the Board	March 31, 2008
/S/ FRANCIS D. TUGGLE **Francis D. Tuggle**	Director	March 31, 2008
/S/ SAM P. DOUGLASS **Sam P. Douglass**	Director	March 31, 2008
/S/ ANTHONY R. MOORE **Anthony R. Moore**	Director	March 31, 2008
/S/ KENNETH I. DENOS **Kenneth I. Denos**	Chief Executive Officer (Principal Executive Officer)	March 31, 2008
/S/ L'SHERYL D. HUDSON **L'Sheryl D. Hudson**	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2008

Exhibit 3(a)

SECOND RESTATED CERTIFICATE OF INCORPORATION
OF
EQUUS TOTAL RETURN, INC.

Equus Total Return, Inc., a Delaware corporation, does hereby certify that:

1. The name under which the Corporation was originally incorporated is Equus II Incorporated. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of Delaware on August 16, 1991, and the first Restated Certificate of Incorporation of the Corporation was filed with the Secretary of State of Delaware on March 4, 1992.

2. The second Restated Certificate of Incorporation set forth below was duly adopted in accordance with Section 245 of the General Corporation Law of the State of Delaware and shall become effective on June 14, 2007. It integrates Certificates of Amendment to the first Restated Certificate of Incorporation previously filed with the Secretary of State of Delaware, and further amends the first Restated Certificate of Incorporation.

3. Such further amendments were proposed by the Board of Directors of the Corporation and adopted by the stockholders of the Corporation in the manner and the vote prescribed by Section 242 of the General Corporation Law of the State of Delaware.

First: The name of the Corporation is

EQUUS TOTAL RETURN, INC.

Second: The registered office of the Corporation in the State of Delaware is located at the Corporation Trust Center, 1209 Orange Street in the city of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

Third: The nature of the business, objects and purposes to be transacted, promoted or carried on by the Corporation are:

(1) To elect to operate, and to operate as a business development company under the Investment Company Act of 1940 (the "1940 Act"), and

(2) To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

Fourth: The Corporation is authorized to issue two classes of shares to be designated as "Common Stock" and "Preferred Stock" The total number of shares (Common and Preferred Stock) which this Corporation is authorized to issue is 55,000,000. The number of shares of Common Stock authorized to be issued shall be 50,000,000 having a par value of $0.001 per share. The number of shares of Preferred Stock authorized to be issued shall be 5,000,000 having a par value of $.001 per share.

A. No holder of Common Stock or Preferred Stock of the Corporation shall be entitled as of right to purchase or subscribe for any part of the unissued stock of the Corporation or of any stock of the Corporation to be issued by reason of any increase of the authorized capital stock of the Corporation or of the number of its shares, or of bonds, certificates of indebtedness, debentures, or other securities convertible into stock of the Corporation or of any stock of the Corporation purchased by it or its nominee or nominees or other securities held in the treasury of the Corporation, whether issued or sold for cash or other consideration or as a dividend or otherwise.

B. The holders of Common Stock shall have the right to one vote per share on all questions to the exclusion of all other classes of stock, except as by law expressly provided or as otherwise herein expressly provided with respect to the holders of any other class or classes of stock. The Corporation may issue fractional shares. Any fractional share shall carry proportionately all the rights of a whole share, including the right to vote and the right to receive dividends and distributions, excluding the right to receive a stock certificate for any fractional shares.

C. The Board of Directors is authorized, subject to any applicable requirements of the 1940 Act, by resolution or resolutions to provide for the issuance of shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

(1) The number of shares constituting that series and the distinctive designation of that series;

(2) The dividend rights and dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;

(3) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(4) Whether that series shall have conversion or exchange privileges, and, if so, the terms and conditions of such conversion or exchange including provision for adjustment of the conversion or exchange rate in such events as the Board of Directors shall determine;

(5) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or date upon or after which they shall be redeemable, and the amount per share payable in cash on redemption, which amount may vary under different conditions and at different redemption dates;

(6) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(7) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation, and the relative rights of priority, if any, of payment of shares of that series;

(8) Any other relative rights, preferences and limitations of that series; or

(9) Any or all of the foregoing terms.

D. Except where otherwise set forth in the resolution or resolutions adopted by the Board of Directors of the Corporation providing for the issue of any series of Preferred Stock created thereby, the number of shares comprising such series may be increased or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors of the Corporation. Should the number of shares of any series be so decreased, the shares constituting such decrease shall resume the status which they had prior to adoption of the resolution originally fixing the number of shares of such series.

E. Shares of any series of Preferred Stock which have been redeemed (whether through the operation of a sinking fund or otherwise), purchased or otherwise acquired by the Corporation, or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes, shall have the status of authorized and unissued shares of Preferred stock and may be reissued as a part of the series of which they were originally a part or may be reclassified or reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors or as part of any other series of Preferred stock, all subject to the conditions or restrictions adopted by the Board of Directors of the Corporation providing for the issue of any series of Preferred Stock and to any filing required by law.

Fifth: [Reserved]

Sixth: The number of directors of the corporation shall be as fixed from time to time by, or in the manner provided in, the by-laws of the Corporation and shall not be less than three nor more than fifteen. Election of directors need not be by written ballot unless the by-laws of the Corporation shall so provide.

Seventh: The Corporation's existence shall be perpetual.

Eighth: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

A. To adopt, amend or repeal the by-laws of the Corporation.

B. To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

C. To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

D. By a majority of the whole Board of Directors, to designate one or more committees, each committee to consist of two or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution or in the by-laws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided, however, the by-laws may provide that in the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member.

E. Subject to Article Tenth, when and as authorized by the affirmative vote of the holders of a majority of the Common Stock issued and outstanding given at a stockholders' meeting duly called upon such notice as is required by statute, or when authorized by the written consent of the holders of a majority of the Common Stock issued and outstanding, to sell, lease or exchange all or substantially all the property and assets of the Corporation, including its goodwill and its corporate franchises, upon such terms and conditions and for such consideration, which may consist in whole or in part of money or property including securities of any other corporation or corporations, as the Board of Directors shall deem expedient and for the best interests of the Corporation.

F. In furtherance and not in limitation of the powers conferred by statute and pursuant to this Certificate of Incorporation, the Board of Directors is expressly authorized to do the following:

(i) subject to Article Tenth, to issue and sell, from time to time, shares of any class of the Corporation's stock in such amounts and on such terms and conditions, and for such amount and kind of consideration, as the Board of Directors shall determine;

(ii) from time to time to set apart out of any assets of the Corporation otherwise available for dividends a reserve or reserves for working capital or for any other proper purpose or purposes, and to reduce, abolish or add to any such reserve or reserves from time to time as said Board of Directors may deem to be in the best interests of the Corporation;

(iii) to distribute in its discretion for any fiscal year (in the year or in the next fiscal year) as ordinary dividends and as capital gains distributions, respectively, amounts of the assets of the Corporation sufficient to enable the Corporation as a regulated investment company to avoid any liability for Federal income tax in respect of such year;

(iv) from time to time to determine the net asset value per share of the Corporation's stock or to establish methods to be used by the Corporation's officers, employees or agents for determining the net asset value per share of the Corporation's stock;

(v) to authorize, subject to such conditions, if any, as may be required by any applicable statute, rule or regulation, the execution and performance by the Corporation of one or more agreements with any person(s) (as defined in the 1940 Act), whereby such person(s) shall render or make available to the Corporation, administrative, custodial and related services, office space and other services and facilities, for such fees and upon such other terms and conditions as may be provided in such agreement(s); and

(vi) from time to time to determine to what extent and at what times and places and under what conditions and regulations the accounts, books and records of the Corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by the laws of the State of Delaware, unless and until authorized to do so by resolution of the Board of Directors or of the stockholders of the Corporation.

G. Except to the extent otherwise prohibited by applicable law, the Corporation may enter into any management, investment advisory, administration, distribution or underwriting contract or any other type of contract with, and may otherwise engage in any transaction or do business with, any person, firm or corporation or any subsidiary or other affiliate of any such person, firm or corporation and may authorize such person, firm or corporation or such subsidiary or other affiliate to enter into any other contract or arrangement with any other person, firm or corporation which relates to the Corporation or the conduct of its business, notwithstanding that any directors or officers of the Corporation are or may subsequently become partners, directors, officers, stockholders or employees of such person, firm or corporation or of such subsidiary or other affiliate or may have a material financial interest in any such contract or transaction or business, and no such contract shall be invalidated or voidable or in any way affected thereby nor shall any of such directors or officers of the Corporation be liable to the Corporation or to any stockholder or creditor thereof or to any other person for any loss incurred solely because of the entering into and performance of such contract or the engaging in such transaction or business or the existence of such material financial interest therein; provided that such relationship to such person, firm or corporation or said subsidiary or affiliate or such material financial interest was disclosed or otherwise known to the Board of Directors prior to the Corporation's entering into such contract or engaging in such transaction or business and in the case of directors of the Corporation that any requirements of the Delaware General Corporation Law have been satisfied; and provided further that nothing herein shall protect any director or officer of the Corporation from liability to the Corporation or its stockholders to which he would otherwise be subject by reason of willful misfeasance, bad faith, negligence or reckless disregard of the duties involved in the conduct of his office. Any member of the Board of Directors of the Corporation who is also a director, officer or employee of any other person, firm or corporation or its subsidiary or other affiliate or who has a material financial interest in a contract or transaction may be counted in determining the existence of a quorum at any meeting of the Board of Directors which authorizes such contract or transaction, with like force as if he did not hold such position or financial interest, and shall not be disqualified from voting on or acting on behalf of the Corporation in such matters.

H. The determination as to any of the following matters made by or pursuant to the direction of the Board of Directors consistent with the Certificate of Incorporation of the Corporation and in the absence of willful misfeasance, bad faith, negligence or reckless disregard of duties, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its stock: (i) the amount of net income of the Corporation from dividends and interest for any period and the amount of assets at any time legally available for the payment of dividends; (ii) the amount of paid-in surplus, other surplus, annual or other net profits, or net assets in excess of capital, undivided profits, or excess of profits over losses on sales of securities; (iii) the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any debt, obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged or shall be then or thereafter required to be paid or discharged); (iv) the market value, or any sale; bid or asked price to be applied in determining the market value, of any security owned or held by the Corporation; (v) the fair value, or the method of determining the fair value, of any asset of the Corporation; (vi) the number of shares issued or issuable; (vii) any matter relating to the issue, acquisition, holding or disposition of securities and other assets of or by the Corporation; and (viii) any question as to whether any transaction constitutes a purchase of securities on margin, a short sale of securities, or an underwriting of the sale of, or participation in any underwriting or selling group in connection with the public distribution of, any securities. Certain of these decisions may be made by, or require the concurrence of, a majority of the Corporation's directors who are not interested persons, as defined in the 1940 Act.

Ninth: Meetings of stockholders may be held within or without the State of Delaware, as the by-laws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the by-laws of the Corporation.

Tenth: A. Notwithstanding any other provisions of this Certificate of Incorporation, a favorable vote of the holders of at least a majority of the shares of the Corporation then entitled to be voted on the matter shall be required to approve, adopt or authorize:

(i)(A) a merger, consolidation or statutory share exchange of the Corporation with or into any other corporation, (B) the sale, lease or exchange of all or any substantial part of the assets of the Corporation (other than in the regular course of its investment activities) to any corporation, person or other entity and (C) the liquidation, dissolution or winding up of the Corporation; and

(ii) the conversion of the Corporation into an open-end management investment company or any change in the nature of the business of the Corporation so that the Corporation ceases to be a business development company under the 1940 Act and any amendment to this Certificate of Incorporation to effect any such conversion or change.

B. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by

statute, and all rights conferred upon stockholders herein are granted subject to this reservation; provided, however, that the Corporation shall not amend Article Eleventh to be effective on a date other than a date on which directors are to be elected. The provisions of clause (1) of Article Third may be amended, altered or repealed only upon the vote of the holders of a majority of the outstanding voting securities of the Corporation, as defined in the 1940 Act. The provisions of paragraph E. of Article Eighth and Article Tenth may be amended, altered or repealed only upon the vote of the holders of a majority of the outstanding shares of Common Stock of the Corporation.

Eleventh: A. To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) directors, officers, employees and agents of the Corporation (and any other persons to which applicable law permits the Corporation to provide indemnification) through by-law provisions, agreements with such persons, vote of stockholders or disinterested directors, or otherwise.

B. Any amendment, repeal or modification of this Article Eleventh shall not adversely affect any right or protection of a director, officer, employee or agent of the Corporation (or any other person to which applicable law permits the Corporation to provide indemnification or advancement of expenses) with respect to any acts or omissions of such person occurring prior to such amendment, repeal or modification.

Twelfth: No director shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of The General Corporation Law of the State of Delaware or any amendment thereto or successor provision thereto or (iv) for any transaction from which the director derived an improper personal benefit. Neither this Certificate of Incorporation nor repeal of this Article Twelfth, nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Article Twelfth, shall eliminate or reduce the effect of this Article Twelfth in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article Twelfth, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

IN WITNESS WHEREOF, Equus Total Return, Inc. has caused this Restated Certificate of Incorporation to be signed by its Co-Chairman this 12th day of June, 2007.

EQUUS TOTAL RETURN, INC.

By: /s/ Sam P. Douglass
Sam P. Douglass
Co-Chairman

Exhibit 3(b)

CERTIFICATE OF MERGER
OF
EQUUS INVESTMENTS INCORPORATED
INTO
EQUUS II INCORPORATED

The undersigned corporation

DOES HEREBY CERTIFY:

FIRST: That the name and state of incorporation of each of the constituent corporations of the merger is as follows:

Name	State of Incorporation
Equus Investments Incorporated	Delaware
Equus II Incorporated	Delaware

SECOND: That an Agreement and Plan of Merger between the parties to the merger has been approved, adopted, certified, executed and acknowledged by each of the constituent corporations in accordance with the requirements of subsection (c) of Section 251 of the General Corporation Law of the State of Delaware.

THIRD: The name of the surviving corporation of the merger is Equus II Incorporated, a Delaware corporation.

FOURTH: That the Certificate of Incorporation of Equus II Incorporated, a Delaware corporation shall be the Certificate of Incorporation of the surviving corporation.

FIFTH: That the executed Agreement and Plan of Merger is on file at the principal place of business of the surviving corporation. The address of the principal place of business of such surviving corporation is 2929 Allen Parkway, Suite 2500, Houston, Texas 77019.

SIXTH: That a copy of the Agreement and Plan of Merger will be furnished on request and without cost to any stockholder of any constituent corporation.

SEVENTH: Pursuant to subsection (d) of Section 103 of the General Corporation Law of the State of Delaware, the undersigned corporation directs that the merger to be effected by this Certificate of Merger shall become effective at 11:59 p.m., Houston, Texas time, on June 30, 1993.

Dated: June 25, 1993.

EQUUS II INCORPORATED,
a Delaware corporation

By: /s/ Nolan Lehmann
Nolan Lehmann, President

ATTEST:

By: /s/ Tom S. Tucker
Tom S. Tucker, Secretary

Exhibit 3(c)

AMENDED AND RESTATED BY-LAWS

OF

EQUUS TOTAL RETURN, INC.

ARTICLE I

OFFICES

SECTION 1.1. REGISTERED OFFICE. The registered office of the Corporation required by the General Corporation Law of the State of Delaware to be maintained in the State of Delaware shall be the registered office named in the original Certificate of Incorporation of the Corporation, or such other office as may be designated from time to time by the Board of Directors in the manner provided by law. Should the Corporation maintain a principal office or place of business within the State of Delaware, such registered office need not be identical to such principal office or place of business of the Corporation.

SECTION 1.2. OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 2.1. PLACE OF MEETINGS. All meetings of the stockholders shall be held at the principal office of the Corporation, or at such other place either within or without the State of Delaware and at such date and time as shall be designated from time to time by the Board of Directors and stated in the notice or waivers of notice of the meeting.

SECTION 2.2. VOTING LIST. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order for each class of stock, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be opened to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 2.3. ANNUAL MEETINGS. An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, within or without the State of Delaware, on such date, and at such time as the Board of Directors shall fix each year and set forth in the notice of the meeting, which date shall be within 13 months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

SECTION 2.4. SPECIAL MEETING. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation may be called by the Chairman of the Board (if any), by the Chief Executive Officer, or by the Board of Directors, but such special meetings may not be called by any other person or persons. The Chairman, Chief Executive Officer, or Board so calling any such meeting shall fix the date and time of, and the place (either within or without the State of Delaware) for, the meeting.

SECTION 2.5. NOTICE OF MEETING. Written notice of the annual, and each special meeting of stockholders, stating the place, date and hour and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote thereat, not less than ten nor more than 60 days before the meeting. Such notice may be delivered either personally or by mail. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

SECTION 2.6. QUORUM. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at any meeting of stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Notwithstanding the other provisions of the Certificate of Incorporation or these By-laws, the chairman of the meeting or the holders of a majority of the shares of stock, present in person or represented by proxy, although not constituting a quorum, shall have the power to postpone or recess the meeting from time to time, without notice other than announcement at the meeting of the date, time, and place of the postponed or recessed meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 2.7. VOTING. When a quorum is present at any meeting of the stockholders, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the statutes, of the Certificate of Incorporation or of these by-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Where a separate vote by class is required, the affirmative vote of the majority of shares of such class present in person or represented by proxy at the meeting shall be the act of such class. Every stockholder having the right to vote at a meeting of stockholders or to express consent or dissent to a corporate action in writing without a meeting shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder, bearing a date not more than three years prior to voting, unless such instrument provides for a longer period, and filed with the Secretary of the Corporation, or such other officer as the Board of Directors may from time to time determine by resolution, before, or at the time of, the meeting.

All proxies shall be received and taken charge of and all ballots shall be received and canvassed by the secretary of the meeting who shall decide all questions touching upon the qualification of voters, the validity of the proxies, and the acceptance or rejection of votes, unless an inspector or inspectors shall have been appointed by the chairman of the meeting, in which event such inspector or inspectors shall decide all such questions. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power.

If such instrument shall designate two or more persons to act as proxies, unless such instrument shall provide the contrary, a majority of such persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting or giving consents thereby conferred, or if only one be present, then such powers may be exercised by that one, or, if an even number attend and a majority do not agree on any particular issue, each proxy so attending shall be entitled to exercise such powers in respect of the same portion of the shares as he is of the proxies representing such shares.

SECTION 2.8. CONSENT OF STOCKHOLDERS. Unless otherwise provided in the Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the Corporation or any action which may be taken at any annual or special meeting of such stockholders, other than matters that are required by the Investment Company Act of 1940 (the "Investment Company Act") to be considered at meetings held in person, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given by the Secretary of the Corporation to those stockholders who have not consented in writing.

SECTION 2.9. VOTING OF STOCK OF CERTAIN HOLDERS; ELECTIONS; INSPECTORS. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxy as the by-laws of such corporation may prescribe, or in the absence of such provision, as the Board of Directors of such corporation may determine. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of such fiduciary. Shares standing in the name of a receiver may be voted by such receiver. A stockholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation, he has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent the stock and vote thereon.

If shares or other securities having voting power stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary of the Corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

(a) If only one votes, his act binds all;

(b) If more than one vote, the act of the majority so voting binds all;

(c) If more than one vote, but the vote is evenly split on any particular matter, each fraction may vote the securities in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to the Court of Chancery or such other court as may have jurisdiction to appoint an additional person to act with the persons so voting the shares, which shall then be voted as determined by a majority of such persons and the person appointed by the Court. If the instrument so filed shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of this subsection shall be a majority of even-split in interest.

All voting, except as required by the Certificate of Incorporation or where otherwise required by law, may be by a voice vote; provided, however, that upon demand therefor by stockholders holding a majority of the issued and outstanding stock present in person or by proxy at any meeting a stock vote shall be taken. Every stock vote shall be taken by written ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. All elections of directors shall be by ballot, unless otherwise provided in the Certificate of Incorporation.

At any meeting at which a vote is taken by ballots, the chairman of the meeting may appoint one or more inspectors, each of whom shall subscribe an oath or affirmation to execute faithfully the duties of inspector at such meeting with strict impartiality and according to the best of his ability. Such inspector shall receive the ballots, count the votes and make and sign a certificate of the result thereof. The chairman of the meeting may appoint any person to serve as inspector, except no candidate for the office of director shall be appointed as inspector.

Unless otherwise provided in the Certificate of Incorporation, cumulative voting for the election of directors shall be prohibited.

SECTION 2.10. CONDUCT OF MEETING. The meetings of the stockholders shall be presided over by the Chairman of the Board (if any), or if he is not present, by the Chief Executive Officer, or if neither the Chairman of the Board (if any), nor Chief Executive Officer is present, by a chairman elected at the meeting. The Secretary of the Corporation, if present, shall act as secretary of such meetings, or if he is not present, an Assistant Secretary shall so act; if neither the Secretary nor an Assistant Secretary is present, then a secretary shall be appointed by the chairman of the meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him in order. Unless the chairman of the meeting of stockholders shall otherwise determine, the order of business shall be as follows:

(a) Calling of meeting to order.

(b) Election of a chairman and the appointment of a secretary if necessary.

(c) Presentation of proof of the due calling of the meeting.

(d) Presentation and examination of proxies and determination of a quorum.

(e) Reading and settlement of the minutes of the previous meeting.

(f) Reports of officers and committees.

(g) The election of directors if an annual meeting, or a meeting called for that purpose.

(h) Unfinished business.

(i) New business.

(j) Adjournment.

SECTION 2.11. TREASURY STOCK. The Corporation shall not vote, directly or indirectly, shares of its own stock owned by it; and such shares shall not be counted in determining the total number of outstanding shares.

SECTION 2.12. FIXING RECORD DATE. The Board of Directors may fix in advance a date, not exceeding 60 days preceding the date of any meeting of stockholders or any adjournment there of, or the date for payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change, or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining express consent to corporate action in writing without a meeting, as a record date for the determination of the stockholders entitled to notice of or to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, any such meeting and any adjournment thereof, or to receive payment of such dividends or distribution, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record dated fixed as aforesaid. With respect to a meeting of stockholders, the record date shall not be less than ten days before the date of such meeting.

If the Board of Directors does not fix a record date for any meeting of the stockholders, the record date for determining stockholders entitled to notice of or to vote at such meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if in accordance with Section 5.2 of these bylaws notice is waived, at the close of business on the day next preceding the day on which the meeting is held. If, in accordance with Section 2.8 of this Article II, corporate action without a meeting of stockholders is to be taken, the record date for determining stockholders entitled to express consent to such corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 2.13. MERGER, SALE OF ASSETS, DISSOLUTION, AMENDMENT OF CERTIFICATE OF INCORPORATION AND BY-LAWS, ETC. Notwithstanding any provision of the Certificate of Incorporation of the Corporation or any other provision of these By-laws, the affirmative vote or consent of the holders of a majority of all of the issued and outstanding Common Stock of the Corporation shall be required:

(a) for a merger or consolidation of the Corporation with or into any other corporation if the Corporation is not the surviving corporation,

(b) for any sale or lease of all or any substantial part of the assets of the Corporation to any other corporation, person or entity,

(c) to dissolve the Corporation, or

(d) to amend, alter, change or repeal, directly or indirectly, the Certificate of Incorporation of the Corporation or Sections 2.13 or 3.2 of these by-laws.

Such affirmative vote or consent shall be in addition to the vote or consent of the holders of any class or series of stock of the Corporation otherwise required by the General Corporation Law, the Certificate of Incorporation or these by-laws or the resolution or resolutions providing for the issuance of such class or series which have or may be adopted by the Board of Directors of the Corporation.

SECTION 2.14. ROLL-UP. In connection with a proposed Roll-up (as hereinafter defined), the Corporation shall offer to stockholders who vote against the proposed Roll-up the choice of:

(a) accepting the securities of the Roll-up Entity (as hereinafter defined) offered in the proposed Roll-up; or

(b) one of the following: (i) remaining as a stockholder in the Corporation and preserving their interests therein on the same terms and conditions as existed previously; or (ii) receiving cash in an amount equal to the appraised value of the net assets of the Corporation.

For purposes of this Section 2.14, the term "Roll-up" shall mean a transaction involving the acquisition, merger, conversion, or consolidation, either directly or indirectly, of the Corporation and the issuance of securities of a Roll-up Entity; provided, however, that such term does not include:

(a) a transaction involving securities of the Corporation that have been listed for at least 12 months on a national securities exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or

(b) a transaction involving the conversion to corporate, partnership, trust or association form of only the Corporation if, as a consequence of the transaction, there will be no significant adverse change in any of the following: (i) stockholders' voting rights, (ii) the term of existence of the Corporation, (iii) the aggregate management and advisory fees paid by the Corporation, or (iv) the Corporation's investment objectives.

For purposes of this Section 2.14, the term "Roll-up Entity" shall mean a partnership, real estate investment trust, corporation, trust, or other entity that would be created or would survive after the successful completion of a proposed Roll-up.

SECTION 2.15. STOCKHOLDER PROPOSALS. At an annual or special meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual or special meeting business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Chairman of the Board, the Chief Executive Officer, or the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Chairman of the Board, the Chief Executive Officer, or the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder.

No proposal by a stockholder shall be presented at an annual or special meeting of stockholders unless such stockholder shall provide the Board of Directors or the Secretary of the Corporation with timely written notice of intention to present a proposal for action at the forthcoming meeting of stockholders, which notice shall include (a) the name and address of such stockholder, (b) the number of voting securities he or she holds of record and which he or she holds beneficially, (c) the text of the proposal to be presented at the meeting, (d) a statement in support of the proposal, and (e) any material interest of the stockholder in such proposal. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice

by the stockholder to be timely must be so received not later than the close of business on the fifth (5th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. Any stockholder may make any other proposal at an annual or special meeting of stockholders and the same may be discussed and considered, but unless stated in writing and filed with the Board of Directors or the Secretary prior to the date set forth above, no action with respect to such proposal shall be taken at such meeting and such proposal shall be laid over for action at an adjourned, special, or annual meeting of the stockholders taking place no earlier than 60 days after such meeting.

This provision shall not prevent the consideration and approval or disapproval at an annual meeting of reports of officers, directors, and committees; but in connection with such reports, no new business shall be acted upon at such annual meeting unless stated and filed as provided in this Section 2.15. Notwithstanding anything in the By-laws to the contrary, no business shall be conducted at any annual or special meeting except in accordance with the procedures set forth in this Section 2.15. The Chairman of the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 2.15, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Notwithstanding any other provision of these By-laws, the Corporation shall be under no obligation to include any stockholder proposal in its proxy statement materials or otherwise present any such proposal to stockholders at a special or annual meeting of stockholders if the Board of Directors reasonably believes the proponents thereof have not complied with Sections 13 and 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, and the Corporation shall not be required to include in its proxy statement material to stockholders any stockholder proposal not required to be included in its proxy material to stockholders in accordance with such Act, rules, or regulations.

SECTION 2.16. NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the procedures of this Section 2.16 shall be eligible for election as directors. Subject to the rights of holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, nominations for the election of directors may be made by the Board of Directors or by any stockholder entitled to vote in the election of directors generally who complies with the notice procedures set forth in this Section 2.16. Any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as a director at a meeting only if timely written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by U.S. mail, first class postage prepaid, return receipt requested, to the Secretary of the Corporation.

To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is give or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifth (5th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination, (b) the name, age, business address, and home address of the person or persons to be nominated; (c) the principal occupation of the person or persons nominated; (d) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting and intends to appear at the meeting to nominate the person or persons specified in the notice; (e) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or

nominations are to be made by the stockholder; (f) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (g) the consent of each nominee to serve as a director of the Corporation if so elected. At the request of the Board of Directors any person nominated by the Board of Directors for election as a Director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.16. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the By-laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III

BOARD OF DIRECTORS

SECTION 3.1. POWERS. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

SECTION 3.2. NUMBER, ELECTION AND TERM. The number of directors which shall constitute the whole Board shall be not less than three (3) nor more than fifteen (15), and at least 50% of whom shall be persons who are not interested persons of the Corporation as defined in the Investment Company Act of 1940. The number of directors may be increased or decreased from time to time by amendment to the by-laws of the Corporation, provided that no decrease in the number of directors shall have the effect of shortening the term of an incumbent director, and further provided that the number of directors shall never be less than one (1). Each director shall hold office for the term for which he is elected, and until his successor shall have been elected and qualified or until his earlier death, resignation or removal. The directors shall be elected at the annual meeting of stockholders, except as provided in Section 3.3. Unless otherwise provided in the Certificate of Incorporation, directors need not be residents of Delaware or stockholders of the Corporation.

SECTION 3.3. VACANCIES, ADDITIONAL DIRECTORS AND REMOVAL FROM OFFICE. If any vacancy occurs in the Board of Directors caused by death, resignation, retirement, disqualification or removal from office of any director, or otherwise, or if any new directorship is created by an increase in the authorized number of directors, a majority of the directors then in office, though less than a quorum, or a sole remaining director, may choose a successor or fill the newly created directorship; and a director so chosen shall hold office until the next annual election and until his successor shall be duly elected and shall qualify, unless sooner displaced.

Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. If the directors of the Corporation are divided into classes, any directors elected to fill vacancies or newly created directorships shall hold office until the next election of the class for which such directors shall have been chosen, and until their successors shall be duly elected and shall qualify.

Any director or the entire Board of Directors may be removed, with or without cause, by the holders of at least a majority of the shares then entitled to vote at an election of directors; provided that, unless the Certificate of Incorporation otherwise provides, if the Board of Directors is elected by class or classes or series thereof, then the stockholders may effect such removal only for cause; and provided further that, if the Certificate of Incorporation expressly grants to stockholders the right to cumulate votes for the election of directors and if less than the entire board is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire Board of Directors, or, if there be classes of directors, at an election of the class of directors of which such director is a part.

SECTION 3.4. REGULAR MEETING. A regular meeting of the Board of Directors shall be held each year, without notice other than this by-law, at the place of, and immediately following, the annual meeting of stockholders if a quorum is present; and other regular meetings of the Board of Directors shall be held each year, at such time and place as the Board of Directors may provide, by resolution, either within or without the State of Delaware, without notice other than such resolution. At the first meeting of the Board of Directors in each year at which a quorum shall be present, held next after the annual meeting of stockholders, the Board of Directors shall proceed to the election of the officers of the Corporation.

SECTION 3.5. SPECIAL MEETING. A special meeting of the Board of Directors may be called by the Chairman of the Board (if any) or by the Chief Executive Officer and shall be called by the Secretary on the written request of any two directors. The Chairman or Chief Executive Officer so calling, or the directors so requesting, any such meeting shall fix the time and place, either within or without the State of Delaware, of holding such meeting.

SECTION 3.6. NOTICE OF SPECIAL MEETING. Personal written, telegraphic, cable or wireless notice of special meetings of the Board of Directors shall be given to each director at least 24 hours prior to the time of such meeting. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting, except that notice shall be given of any proposed amendment to the by-laws if it is to be adopted at any special meeting or with respect to any other matter where notice is required by statute.

SECTION 3.7. PLACE OF MEETINGS; ORDER OF BUSINESS. The directors may hold their meetings and may have an office and keep the books of the Corporation, except as otherwise provided by law, in such place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine by resolution. At all meetings of the Board of Directors business shall be transacted in such order as shall from time to time be determined by the Chairman of the Board (if any), or in his absence by the Chief Executive Officer, or by resolution of the Board of Directors.

SECTION 3.8. QUORUM AND PARTICIPATION. The presence of one-third of the entire number of directors then in office (but not less than two directors) shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute, by the Certificate of Incorporation or by these by-laws. Except for at meetings called for the purpose of considering matters that are required by the Investment Company Act to be considered at meetings held in person, members of the Board of Directors, may participate in a meeting of the Board of Directors or such committee, as the case may be, by means of

conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person and attendance at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 3.9. PRESUMPTION OF ASSENT. A director who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 3.10. ACTION WITHOUT MEETING. Unless otherwise restricted by the Certificate of Incorporation or these bylaws, or unless a matter is required by the Investment Company Act to be considered at a meeting held in person, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof as provided in Article IV of these by-laws, may be taken without a meeting, if a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of committee. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any document or instrument filed with the Secretary of State of Delaware.

SECTION 3.11. COMPENSATION. Unless otherwise restricted by the Certificate of Incorporation, the Board of Directors shall have the authority to fix the compensation of directors. No provision of these by-laws shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

SECTION 3.12. APPROVAL OR RATIFICATION OF ACTS OR CONTRACTS BY STOCKHOLDERS. The Board of Directors in its discretion may submit any act or contract for approval or ratification at any annual meeting of the stockholders, or at any special meeting of the stockholders called for the purpose of considering any such act or contract, and any act or contract that shall be approved or be ratified by the vote of the stockholders holding a majority of the issued and outstanding shares of stock of the Corporation entitled to vote and present in person or by proxy at such meeting (provided that a quorum is present), shall be as valid and as binding upon the Corporation and upon all the stockholders as if it has been approved or ratified by every stockholder of the Corporation. In addition, any such act or contract may be approved or ratified by the written consent of stockholders holding a majority of the issued and outstanding shares of capital stock of the Corporation entitled to vote and such consent shall be as valid and as binding upon the Corporation and upon all the stockholders as if it had been approved or ratified by every stockholder of the Corporation.

SECTION 3.13. ADVISORY BOARD. There may be an Advisory Board of any number of individuals appointed by the Board of Directors who may meet at stated times or on notice to all by any of their own number or by the Chief Executive Officer. The Advisory Board shall be composed of stockholders or representatives of stockholders. The Advisory Board will have no power to require the Corporation to take any specific action. Its purpose shall be solely to consider matters of general policy and to represent the stockholders in all matters except those involving the purchase and sale of specific securities. A majority of the Advisory Board, if appointed, must consist of stockholders who are not otherwise “affiliated” or “interested persons” of the Corporation or of any “affiliate” of the Corporation (as defined in the Investment Company Act of 1940).

ARTICLE IV

COMMITTEE OF DIRECTORS

SECTION 4.1. DESIGNATION, POWERS AND NAME. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, including, if they shall so determine, an executive committee, each such committee to consist of one or more of the directors of the Corporation. Any such designated committee shall have and may exercise such of the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation as may be provided in such resolution. Any such designated committee may authorize the seal of the Corporation to be affixed to all papers which may require it. No such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided by statute, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the by-laws of the Corporation; and, unless the resolution, by-laws, or Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Such committee or committees shall have such name or names and such limitations of authority as may be determined from time to time by resolution adopted by the Board of Directors.

SECTION 4.2. AUDIT COMMITTEE. There shall be an Audit Committee of two or more directors who are not "interested persons" of the Corporation (as defined in the Investment Company Act of 1940) appointed by the Board of Directors who may meet at stated times or on notice to all by any of their own number. The Audit Committee's duties shall include reviewing both the audit and other work of the Corporation's independent accountants, recommending to the Board of Directors the independent accountants to be retained, and reviewing generally the maintenance and safekeeping of the Corporation's records and documents.

SECTION 4.3. PROCEDURE; MEETINGS; QUORUM. Any committee designated pursuant to Section 4.1 shall choose its own chairman, shall keep regular minutes of its proceedings and report the same to the Board of Directors when requested, shall fix its own rules or procedures, and shall meet at such times and at such place or places as may be provided by such rules, or by resolution of such committee or resolution of the Board of Directors. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any resolution.

SECTION 4.4. COMPENSATION. Members of special or standing committees may be allowed compensation for attending committee meetings, if the Board of Directors shall so determine.

ARTICLE V

NOTICE

SECTION 5.1. METHODS OF GIVING NOTICE. Whenever under the provisions of the statutes, the Certificate of Incorporation or these by-laws, notice is required to be given to any director, member of any committee or stockholder, such notice shall be in writing and delivered personally or mailed to such director, member or stockholder; provided that in the case of a director or a member of any committee such notice may be given orally or by telephone, telegram, telegraphic, cable or wireless transmission. If mailed, notice to a director, member of a committee or stockholder shall be deemed to be given when deposited in the United States mail first class in a sealed envelope, with postage therein prepaid, addressed, in the case of a stockholder, to the stockholder at the stockholder's address as it appears on the records of the corporation or, in the case of a director or a member of a committee, to such person at his business address. If sent by telegram, notice to a director or member of a committee shall be deemed to be given when the telegram, so addressed, is delivered to the telegraph company. Notice shall be deemed to have been given on the date of any telegraphic, cable or wireless transmission.

SECTION 5.2. WRITTEN WAIVER. Whenever any notice is required to be given under the provisions of the statutes, the Certificate of Incorporation or these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or the by-laws.

ARTICLE VI

OFFICERS

SECTION 6.1. OFFICERS. The officers of the Corporation shall be a Chief Executive Officer, a President, one or more Vice Presidents, any one or more of which may be designated Executive Vice President or Senior Vice President, a Secretary, a Treasurer, and such other officers as the Board of Directors may elect or appoint. The Board of Directors may appoint such other officers and gents, including Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers, as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined by the Board. Any two or more offices, may be held by the same person unless the Certificate of Incorporation provides otherwise. No officer shall execute, acknowledge, verify or countersign any instrument on behalf of the Corporation in more than one capacity, if such instrument is required by law, by these by-laws or by any act of the Corporation to be executed, acknowledged, verified or countersigned by two or more officers. The Chairman of the Board shall be elected from among the directors. With the foregoing exceptions, none of the other officers need be a director, and none of the officers need be a stockholder of the Corporation.

SECTION 6.2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected annually by the Board of Directors at its first regular meeting held after the annual meeting of stockholders or as soon thereafter as conveniently possible. Each officer shall hold office until his successor shall have been chosen and shall have qualified or until his death or the effective date of his resignation or removal, or until he shall cease to be a director in the case of the Chairman and Vice Chairman.

SECTION 6.3. REMOVAL AND RESIGNATION. Any officer or agent elected or appointed by the Board of Directors may be removed, with or without cause, by the affirmative vote of a majority of the Board of Directors whenever, in its judgment, the best interests of the Corporation shall be served thereby, but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Any officer may resign at any time by giving written notice to the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6.4. VACANCIES. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 6.5. SALARIES. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors or pursuant to its direction; no officer shall be prevented from receiving such salary by reason of his also being a director.

SECTION 6.6. CHAIRMAN OF THE BOARD. The Board of Directors may elect or appoint a Chairman of the Board of Directors ("Chairman"). The Chairman shall preside at all meetings of the Board of Directors and of the Corporation's shareholders at which the Chairman is present. The Chairman shall have such other duties as usually pertain to that office, as the Board may assign to that office, or as may be required by law. If the Chairman is a Director who is not an "interested person" of the Corporation as defined in Section 2(a)(19) of the Investment Company Act ("Independent Director"), the Chairman shall serve as a non-executive Chairman and shall not be considered an officer of the Corporation. The Chairman of the Board shall hold such title until that person's successor shall have been duly chosen and qualified, or until that person shall have resigned or shall have been removed.

SECTION 6.7. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall be the chief executive officer of the corporation and, subject to the control of the Board of Directors, shall in general manage, supervise and control the properties, business and affairs of the Corporation with all such powers as may be reasonably incident to such responsibilities. Unless the Board of Directors otherwise determines, the Chief Executive Officer shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness and other obligations in the name of the Corporation. In the absence of the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the Stockholders and (should he be a director) of the Board of Directors. He may also preside at any such meeting attended by the Chairman of the Board if he is so designated by the Chairman. He shall have the power to appoint and remove subordinate officers, agents and employees, except those elected or appointed by the Board of Directors. The Chief Executive Officer shall keep the Board of Directors and the Executive Committee fully informed and shall consult them concerning the business of the Corporation. He may sign with the Secretary or any other officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation and any deeds, bonds, mortgages, contracts, checks, notes, drafts or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof has been expressly delegated by these by-laws or by the Board of Directors to some other officer or agent of the Corporation, or shall be required by law to be otherwise executed. He shall vote, or give a proxy to any other officer of the Corporation to vote all shares of stock of any other corporation standing in the name of the Corporation and shall exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation and in general he shall perform all other duties normally incident to the office of Chief Executive Officer and such other duties, and shall have such other powers, as may be prescribed by the stockholders, the Board of Directors or the Executive Committee (if any) from time to time.

SECTION 6.8. PRESIDENT. In the absence of the Chief Executive Officer, or in the event of his inability or refusal to act, the President shall perform the duties and exercise the powers of the Chief Executive Officer, and when so acting shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. The President may sign, with the Secretary or Assistant Secretary, certificates for shares of the Corporation. The President shall perform such other duties, and shall have such other powers, as from time to time may be assigned to him by the Chief Executive Officer, the Board of Directors or the executive committee (if any).

SECTION 6.9. VICE PRESIDENTS. In the absence of the President, or in the event of his inability or refusal to act, the Executive Vice President (or in the event there shall be no Vice President designated Executive Vice President, any Vice President designated by the Board) shall perform the duties and exercise the powers of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President. In the absence of a designation by the Board of Directors of a Vice President to perform the duties of the President, or in the event of his absence or inability or refusal to act, the Vice President who is present and who is senior in terms of time as a Vice President of the Corporation shall so act. Any Vice President may sign, with the Secretary or Assistant Secretary, certificates for shares of the Corporation. The Vice President shall perform such other duties, and shall have such other powers, as from time to time may be assigned to them by the President, the Board of Directors or the executive committee (if any).

SECTION 6.10. SECRETARY. The Secretary shall (a) keep the minutes of the meetings of the stockholders, the Board of Directors and committees of directors; (b) see that all notices are duly given in accordance with the provisions of these by-laws and as required by law; (c) be custodian of the corporate records and of the seal of the Corporation, and see that the seal of the Corporation or a facsimile thereof is affixed to all certificates for shares prior to the issue thereof and to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these by-laws and attest the affixation of the seal of the Corporation thereto; (d) keep or cause to be kept a register of the post office address of each stockholder which shall be furnished by such stockholder; (e) sign with the Chief Executive Officer, the President, or an Executive Vice President or Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the Corporation; and (g) in general, perform all duties normally incident to the office of Secretary and such other duties, and shall have such other powers, as from time to time may be assigned to him by the President, the Board of Directors or the executive committee (if any).

SECTION 6.11. TREASURER. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. He shall (a) have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any source whatsoever and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Section 7.3 of these bylaws; (b) prepare, or cause to be prepared, for submission at each regular meeting of the Board of Directors, at each annual meeting of the stockholders, and at such other times as may be required by the Board of Directors, the Chief Executive Officer, the President or the executive committee (if any), a statement of financial condition of the Corporation in such detail as may be required; and (c) in general, perform all the duties incident to the office of Treasurer and such other duties, and shall have such other powers, as from time to time may be assigned to him by the Chief Executive Officer, the President, the Board of Directors or the executive committee (if any).

SECTION 6.12. ASSISTANT SECRETARY OR TREASURER. The Assistant Secretaries and Assistant Treasurers shall, in general, perform such duties and have such powers as shall

be assigned to them by the Secretary or the Treasurer, respectively, or by the Chief Executive Officer, the President, the Board of Directors or the Executive Committee. The Assistant Secretaries and Assistant Treasurers shall, in the absence or inability or refusal to act of the Secretary or Treasurer, respectively, perform all functions and duties which such absent officers may delegate, but such delegation shall not believe the absent officer from the responsibilities and liabilities of his office. The Assistant Secretaries may sign, with the Chief Executive Officer, the President or a Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine.

SECTION 6.13. SURETY BONDS. The Board of Directors may require any officer or agent of the Corporation to execute a bond (including, without limitation, any bond required by the Investment Company Act of 1940, as amended, and the rules and regulations of the Securities and Exchange Commission) to the Corporation in such sum and with such surety or sureties as the Board of Directors may determine, conditioned upon the faithful performance of his duties to the Corporation, including responsibility for negligence and for the accounting of any of the Corporation's property, funds or securities that may come into his hands.

ARTICLE VII

CONTRACTS, CHECKS AND DEPOSITS

SECTION 7.1. CONTRACTS. Subject to the provisions of Section 6.1, the Board of Directors may authorize any officer, officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 7.2. CHECKS, ETC. All checks, demands, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers or such agent or agents of the Corporation, and in such manner, as shall be determined by the Board of Directors.

SECTION 7.3. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE VIII

CERTIFICATES OF STOCK

SECTION 8.1. ISSUANCE. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution that some or all classes or series of the Corporation's stock may be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to a certificate or certificates showing the number of shares of stock registered in his name on the books of the Corporation. The certificates shall be in such form as may be determined by the Board of Directors, shall be issued in numerical order and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares (and if the stock of the Corporation shall be divided into classes or series, the class or series of such shares) and shall be signed by the Chief Executive Officer, the President or a Vice

President and by the Secretary or an Assistant Secretary. Any of or all of the signatures on the certificate may be facsimiles. The stock record books and the blank stock certificate books shall be kept by the Secretary, or at the office of such transfer agent or transfer agents as the Board of Directors may from time to time by resolution determine. In case any officer, transfer agent or registrar who shall have signed or whose facsimile signature or signatures shall have been placed upon any such certificate or certificates shall have ceased to be such officer, transfer agent or registrar before such certificate is issued by the Corporation, such certificate may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class of stock; provided that, except as otherwise provided by statute, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance of transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this Section 8.1 or otherwise required by statute or with respect to this Section 8.1 a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

All certificates surrendered to the corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in the case of a lost, stolen, destroyed or mutilated certificate a new one may be issued therefor upon such terms and with such indemnity, if any, to the Corporation as the Board of Directors may prescribe. Certificates shall not be issued representing fractional shares of stock.

SECTION 8.2. LOST CERTIFICATES. The Board of Directors may direct a new certificate of stock or uncertificated shares to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as it shall require or to give the Corporation a bond in such sum as it may deem sufficient to indemnify it against any claim that may be made against the Corporation on account of the alleged loss, theft or destructions of any such certificate or the issuance of such new certificate or uncertificated shares, or both.

SECTION 8.3. TRANSFERS. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and register the transaction upon its books. Upon presentation to the Corporation or the transfer agent of the Corporation of an instruction

with a request to transfer, pledge or release an uncertificated share or shares, it shall be the duty of the Corporation to register the transfer, pledge or release upon its books, and shall provide the registered owner with such notices as may be required by law. Transfers of shares shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney and filed with the Secretary of the Corporation or the transfer agent.

SECTION 8.4. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to treat the registered owner of any share or shares of stock whether certificated or uncertificated as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

SECTION 8.5. REGULATIONS REGARDING CERTIFICATES. The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of capital stock of the Corporation.

ARTICLE IX

DIVIDENDS

SECTION 9.1. DECLARATION. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of capital stock, subject to the provisions of the Certificate of Incorporation.

SECTION 9.2. RESERVE. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X

INDEMNIFICATION

To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) directors, officers, employees and agents of the Corporation (and any other persons to which applicable law permits the Corporation to provide indemnification) through by-law provisions, agreements with such persons, vote of stockholders or disinterested directors, or otherwise.

Any amendment, repeal or modification of this Article X shall not adversely affect any right or protection of a director, officer, employee or agent of the Corporation (or any other person to which applicable law permits the Corporation to provide indemnification or advancement of expenses) with respect to any acts or omissions of such person occurring prior to such amendment, repeal or modification.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. SEAL. The Board of Directors may provide a suitable seal, containing the name of the corporation, and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

SECTION 11.2. BOOKS. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors.

SECTION 11.3. FISCAL YEAR. The fiscal year of the Corporation shall be such as established from time to time by the Board of Directors.

SECTION 11.4. RESIGNATIONS. Any director, member of a committee or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of its receipt by the Chief Executive Officer or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

SECTION 11.5. FACSIMILE SIGNATURES. In addition to the provisions for the use of facsimile signatures elsewhere specifically authorized in these by-laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors.

SECTION 11.6. RELIANCE UPON BOOKS, REPORTS AND RECORDS. Each director and each member of any committee designated by the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or reports made to the Corporation by any of its officers, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or by any such committee, or in relying in good faith upon other records of the Corporation.

SECTION 11.7. ACCOUNTANT.

(a) The Corporation shall employ an independent public accountant or a firm of independent public accountants as its Accountant to examine the accounts of the Corporation and to sign and certify financial statements filed by the Corporation. The Accountant's certificates and reports shall be addressed both to the Board of Directors and to the stockholders. The employment of the Accountant shall be conditioned upon the right of the Corporation to terminate the employment forthwith without any penalty by vote of a majority of the outstanding voting securities at any stockholders' meeting called for that purpose.

(b) A majority of the members of the Board of Directors who are not "interested persons" (as defined in the Investment Company Act of 1940) of the Corporation shall select the Accountant at any meeting held within 30 days before or after the beginning of the fiscal year or before the annual stockholders' meeting in that year.

(c) Any vacancy due to the resignation of the Accountant, may be filled by the vote of a majority of the members of the Board of Directors who are not "interested persons."

SECTION 11.8. ACCESS TO RECORDS. Every stockholder of the Corporation shall have access to the records of the Corporation and may inspect and copy any of them during the usual hours for business for any proper purpose. An alphabetical list of the names and addresses of the stockholders of the Corporation along with the number of shares held by each of them (the "Stockholder List") shall be maintained as a part of the books and records of the Corporation and shall be available for inspection by any stockholder or its designated agent at the home office of the Corporation upon the request of a stockholder. The Stockholder List shall be updated at least quarterly to reflect changes in the information contained therein. A copy of the Stockholder List shall be mailed to any stockholder requesting the Stockholder List within ten days of the request. The copy of the Stockholder List shall be printed in alphabetical order, on white paper, and in a readily readable type size (in no event smaller than 10-point type). A reasonable charge for copy work may be charged by the Corporation. The purpose for which a stockholder may request a copy of the Stockholder List include, without limitation, matters relating to stockholders' voting rights and the exercise of stockholders' rights under federal proxy laws. If the Corporation neglects or refuses to exhibit, produce, or mail a copy of the Stockholder List as requested, the Corporation shall be liable to any stockholder requesting the List for the costs, including attorney's fees, incurred by the stockholder for compelling the production of the Stockholder List, and for actual damages suffered by any stockholder by reason of such refusal or neglect. It shall be a defense to any claim by a stockholder that the actual purpose and reason for the request for inspection or for a copy of the Stockholder List is to secure the Stockholder List or other information for the purpose of selling such list or copies thereof, or of using the same for a commercial purpose other than in the interest of the stockholder as a stockholder of the Corporation relative to the affairs of the Corporation. The Corporation may require a stockholder requesting the Stockholder List to represent that the List is not requested for a commercial purpose unrelated to the stockholder's interest in the Corporation. The remedies provided hereunder to stockholders requesting copies of the Stockholder List are in addition to, and shall not in any way limit, other remedies available to stockholders under federal law or Delaware law.

ARTICLE XII

AMENDMENT

If provided in the Certificate of Incorporation of the Corporation, the Board of Directors shall have the power to adopt, amend and repeal from time to time by-laws of the Corporation, subject to the right of the stockholders entitled to vote with respect thereto to amend or repeal such by-laws as adopted or amended by the Board of Directors and to the provisions of 2.13 hereof.

Amended and Restated as of December 17, 2007

Exhibit 10(f)

EQUUS TOTAL RETURN, INC.

MOORE CLAYTON CAPITAL ADVISORS, INC.

JOINT CODE OF ETHICS

(Last revised August 10, 2007)

1. Applicability

This Code of Ethics (the "Code") has been adopted by the Board of Directors of Equus Total Return, Inc. (the "Fund"), including a majority of the Independent Directors, of the Fund and Moore Clayton Capital Advisors, Inc. ("MCCA") in order to satisfy the requirements of Rule 17j-1 under the 1940 Act and Section 204A of the Advisers Act.

As it relates to Rule 17j-1 of the 1940 Act, the purpose of the Code is to establish standards and procedures that are reasonably designed for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Fund may abuse their fiduciary duties to the Fund and otherwise deal with the types of conflicts of interest situations to which Rule 17j-1 is addressed. As it relates to Section 204A of the Advisers Act, the purpose of this Code is to establish procedures that, taking into consideration the nature of MCCA's business, are reasonably designed to prevent the misuse of material non-public information in violation of the federal securities laws by persons associated with MCCA.

1. Definitions

1.1. "Access Person" means any (a) Board Member, (b) Advisory Person, (c) officer of the Fund, or (d) partner, officer or director of MCCA. A person does not become an Access Person solely by reason of (a) normally assisting in the preparation of public reports or receiving public reports, but not receiving information about current recommendations or trading activity or (b) a single instance of obtaining knowledge of current recommendations or trading activity, or infrequently and inadvertently obtaining such knowledge.

1.2. "Advisory Person" means any (a) employee of the Fund or MCCA who, in connection with his or her regular functions or duties, makes, participates in, or obtains current information regarding the purchase or sale of any security by the Fund, or which functions relate to the making of any recommendation concerning any security held or to be purchased or sold by the Fund, and (b) any natural person in a Control relationship to the Fund or MCCA who obtains current information concerning recommendations made to the Fund with regard to the purchase of sale of any Security.

1.3 "Annual Certification" means an Annual Certification of Compliance with Code of Ethics, in the form attached as Schedule F.

1.4 "Beneficial Ownership" has the meaning set forth in paragraph (a)(2) of Rule 16a-1 under the Securities Exchange Act of 1934, and for purposes of this Code includes any interest by which an Access Person or any Immediate Family Member of an Access Person can directly or indirectly derive monetary or other economic benefit from the purchase, sale (or other acquisition or disposition), or ownership of a security, including any such interest that arises as a result of: a general partnership interest in a general or limited partnership, an interest in a trust, a right to dividends that is separated or separate from the underlying security, a right to acquire equity securities through the exercise or conversion of a derivative security (whether or not presently exercisable), and a performance related advisory fee (other than an asset based fee).

1.5 "Board Member" means each individual who serves as a director of the Fund.

1.6 "Committee of Independent Directors" means a committee comprised of all of the directors of the Fund who are not "interested persons" of the Fund as defined in Section 2(a)(19) of the 1940 Act acting as a committee of the whole.

1.7 "Compliance Officer" means the person designated by MCCA to serve as the chief compliance officer of MCCA.

1.8 "Control" has the meaning set forth in Section 2(a)(9) of the 1940 Act, and includes the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with the company. Control shall be presumed to exist where a person owns beneficially, either directly or through one or more companies, more than 25% of the voting securities of a company.

1.9 "Fund Employee" means any person who: (1) is an Access Person or (2) is a director, officer, or employee of MCCA and provides services to the Fund or in the course of his or her duties obtains information regarding investment recommendations made to the Fund or the Fund's investment transactions.

1.10 "Immediate Family Member" means a person who shares the same household as the Access Person and is related to the Access Person by blood, marriage, or adoption.

1.11 "Independent Board Member" means each individual who serves as an individual director of the Fund who is not an "interested person," as defined in Section 2(a)(19) of the 1940 Act.

1.12 "Initial Certification" means an Initial Certification of Compliance with Code of Ethics, in the form attached as Schedule E.

1.13 "Initial Public Offering" means an offering of securities registered under the Securities Act of 1933, the issuer of which, immediately before the registration was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934.

1.14 "Limited Offering" means an offering that is exempt from registration pursuant to Section 4(2) or Section 4(6) of the Securities Act of 1933 or Rule 504, 505, or 506 thereunder.

1.15 "Security" has the meaning set forth in Section 2(a)(36) of the 1940 Act and includes any and all stock, debt obligations, and similar instruments of whatever kind, including any right or warrant to purchase a security, or option to acquire or sell a security, a group or index of securities. References to a security in this Code shall be deemed to refer to and include any warrant for, option in, or security immediately convertible into that security, and shall also include any financial instrument that has an investment return or value that is based, in whole or in part, on that security (collectively "derivatives").

A security is "being considered for purchase or sale" when a recommendation to purchase or sell the security has been made or communicated and, with respect to the person making the recommendation, when such person seriously considers making such a recommendation.

1.16 "Securities that are not eligible for purchase by the Fund" unless the Fund otherwise notifies any Access Person to the contrary, include (a) any security issued by an investment company; (b) any security that is registered on a national securities exchange; (c) any security that has unlisted trading privileges on a national securities exchange; (d) any OTC margin stock or bond as defined in Regulation T issued by the Board of Governors of the Federal Reserve System pursuant to the Securities Exchange Act of 1934 ("Regulation T"); (e) any other margin security as defined in Regulation T; (f) the purchase and sale of commodities or commodities contracts; (g) any put, call, straddle, option, or privilege related to any of the foregoing and (h) any other security other than common or preferred stock or notes, bonds or debentures convertible into common or preferred stock or notes, bonds, or debentures combined with warrants, options, or other rights to acquire common or preferred stock.

The Compliance Officer shall maintain a list (the "Ineligible Security List") of securities that fall within the foregoing categories but are being considered for purchase or sale by the Fund or are held by the Fund. The Ineligible Security List shall be provided to each Access Person.

2. Statement of General Principles

The general fiduciary principles that govern the trading activities by an Access Person are as follows:

2.1 The duty at all times to place the interests of the stockholders of the Fund first.

2.2 The requirement that all personal securities transactions be conducted in a manner that does not interfere with the Fund's portfolio transactions so as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility.

2.3 The fundamental standard that Access Persons should not take inappropriate or unfair advantage of their relationship with the Fund or MCCA.

Covered Persons must adhere to these general principles as well as comply with the Code's specific provisions.

3. Prohibited Purchases and Sales.

3.1 Except as permitted pursuant to Section 4 or 5 below, no Access Person shall purchase or sell, directly or indirectly, any security in which he or she has, or by reason of such transaction acquires, any direct or indirect beneficial ownership and which he or she knows or should know at the time of such purchase or sale: (a) has been purchased or sold by the Fund within the last 15 calendar days or held by the Fund for less than 60 calendar days, (b) is currently being purchased or sold by the Fund, or (c) is being, or within the most recent 15 calendar days has been, considered for purchase or sale by the Fund. These prohibitions shall continue until the time that MCCA or any such Access Person decides not to recommend such purchase or sale, or if such recommendation is made, until the time that the Fund decides not to enter into, or completes, such recommended purchase or sale.

3.2 No Access Person shall recommend any securities transaction by the Fund without having disclosed his interest, if any, in such securities or the issuer of the securities, including without limitation: (a) his or her direct or indirect beneficial ownership of any securities of any such issuer, (b) any contemplated transaction by such person in such securities, (c) any position with such issuer or its affiliates, or (d) any present or proposed business relationship between such issuer or its affiliates and such person or any party in which such person has a significant interest.

3.3 No Access Person shall, directly or indirectly in connection with the purchase or sale of any securities held or to be acquired by the Fund: (a) employ any device, scheme, or artifice to defraud the Fund, (b) make to the Fund any untrue statement of a material fact or omit to state to the Fund a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, (c) engage in any act, practice, or

course of business that operates or would operate as a fraud or deceit upon the Fund, or (d) engage in any manipulative practice with respect to the Fund.

3.4 No Access Person shall: (a) purchase, directly or indirectly, or by reason of such transaction acquire, any direct or indirect beneficial ownership of any securities of any securities in an Initial Public Offering or a Limited Offering eligible for purchase by the Fund without prior approval in accordance with this Code or (b) accept any gift or other thing of more than *de minimus* value from any person or entity that does business with or on behalf of the Fund.

4. Exempt Purchases and Sales.

The prohibitions in Section 3 of this Code shall not apply to:

(a) Purchases or sales effected in any account over which an Access Person has no direct or indirect influence or control;

(b) Purchases or sales of securities that are not eligible for purchase by the Fund, except any such securities that are listed on the Ineligible Security List;

(c) Purchases or sales of securities that are U.S. Treasury obligations, commercial paper and high quality debt instruments (including repurchase agreements) with a stated maturity of 12 months or less, bankers' acceptances, and bank certificates of deposit;

(d) Purchases and redemptions of shares of registered open-end investment companies (mutual funds);

(e) Purchases effected upon exercise of rights issued by an issuer pro rata to all holders of a class of its securities to the extent such rights were acquired from such issuer, and sales of such rights to be acquired;

(f) Involuntary (*i.e.*, non-volitional) purchases and sales or securities;

(g) Any securities transaction, or series of related transaction, involving 500 shares or less in the aggregate, if the issuer has a market capitalization (outstanding shares multiplied by the current price per share) greater than $1 billion;

(h) Purchases that are part of an automatic dividend reinvestment plan;

(g) Joint investments permitted pursuant to an exemptive order issued by the Securities and Exchange Commission; or

(h) Purchases or sales for which the Access Person has received prior approval from the Compliance Officer in accordance with this Code.

5. Prior Clearance of Transactions.

No Access Person other than Independent Board Members (unless they have actual knowledge of the matters described in Paragraph 3.1) shall effect a purchase or sale directly or indirectly, of any security in which he has, or by reason of such transaction acquires, any direct or indirect beneficial ownership, other than purchases or sales permitted under Section 4 of this Code, without obtaining prior written clearance from the Compliance Officer or a person designated by the Compliance Officer to pre-clear transactions. The Compliance Officer and these designated persons are referred to as a "Clearing Officer." A Clearing Officer seeking pre-clearance with respect to his or her own transaction shall obtain such clearance from another Clearing Officer.

Any Access Person who effects a purchase or sale after obtaining such prior written clearance shall be deemed not to be in violation of Section 3 of this Code by reason of such purchase or sale. Upon written request from an Access Person as provided in Paragraph 5.1 below, a Clearing Officer shall have the sole discretion to pre-approve a personal securities transaction, and thereby exempt such transaction from the restrictions of this Code. The Clearing Officer shall make such determination in accordance with the following:

5.1 Prior approval shall be granted only if a purchase or sale of securities is consistent with the purposes of this Code and Section 17(j) of the 1940 Act. To illustrate, a purchase or sale shall be considered consistent with those purposes if such purchase or sale is only remotely potentially harmful to the Fund or MCCA because such purchase or sale would be unlikely to affect a highly institutional market, or because such purchase or sale is clearly not related economically to the securities held, purchased, or sold by the Fund.

5.2 Prior approval shall take into account, among other factors:

(a) Whether the investment opportunity should be reserved for the Fund and whether the opportunity is being offered to the Access Person by virtue of the Access Person's position with the Fund or MCCA;

(b) Whether the amount or nature of the transaction or person making it is likely to affect the price or market for the security;

(c) Whether the Access Person making the proposed purchase or sale is likely to benefit from purchases or sales being made or being considered by the Fund;

(d) Whether the security proposed to be purchased or sold is one that would qualify for purchase or sale by the Fund;

(e) Whether the transaction is non-volitional on the part of the individual, such as receipt of a stock dividend or a sinking fund call;

(f) Whether the chance of a conflict of interest is remote; and

(g) Whether the transaction is likely to effect the Fund adversely.

5.3 Access Persons must submit in writing a completed and executed Request for Permission to Engage in a Personal Securities Transaction (a form of which is attached hereto as Schedule A), which shall set forth the details of the proposed transaction. Approval of the transaction as described on such form shall be evidenced by the signature of the Clearing Officer thereon. A copy of all prior approval forms, with all required signatures, shall be retained by the Compliance Officer.

5.4 If approval is given to the Access Person in accordance with this Code to engage in a securities transaction, the Access Person is under an affirmative obligation to disclose that position if such Access Person plays a material role in the Fund's subsequent investment decision regarding the same issuer. In such circumstances, an independent review of the Fund's investment decision to purchase securities of the issuer by investment personnel with no personal interest in the issuer shall be conducted.

5.5 Approval granted to the Covered Person in accordance with this Code is only effective for seven days from the date of such approval; provided, however, that a pre-clearance expires upon the Access Person receiving pre-clearance becoming aware of facts or circumstances that would prevent a proposed trade from being pre-cleared were such facts or circumstances made known to a Clearing Officer. Accordingly, if an Access Person becomes aware of new or changed facts or circumstances that give rise to a question as to whether pre-clearance could be obtained if a Clearing Officer was aware of such facts or circumstances, the Access Person shall be required to so advise a Clearing Officer and obtain a new pre-clearance before proceeding with such transaction.

6. Reporting.

6.1 Every Access Person must submit an Initial Holdings Report, Quarterly Transactions Reports and Annual Holdings Reports on such dates as shall be determined by the Compliance Officer containing the information set forth below about each transaction, if any, by which the Access Person acquires any direct or indirect beneficial ownership of a security; provided, however, that:

(a) An Access Person shall not be required to include in such reports any transaction effected for any account over which such Access Person does not have any direct or indirect influence or control; and

(b) Independent Board Members of the Fund shall not be required to submit an Initial Holdings Report or Annual Holdings Reports, and shall be required to submit a Quarterly Transaction Report of a transaction only if such person, at the time of that transaction, knew, or in the ordinary course of fulfilling his official duties as a director of the Fund should have known, that during the 15-day period immediately preceding or after the date of the transaction by such person, the security such person purchased or sold is or was purchased or sold by the Fund or was being considered for purchase or sale by the Fund or MCCA.

6.2 Each Access Person within ten days of the date that he or she becomes an Access Person shall furnish to the Compliance Officer an Initial Holdings Report in the form attached as Schedule B containing the following information: (a) the title, number of shares, and principal amount of all securities that he or she beneficially owns, directly or indirectly, except securities specified in Section 4(a) and (c) of this Code, (b) the name of any broker, dealer, or bank with whom the Access Person maintained an account in which any securities held, purchased, or sold ("personal securities account") for the direct or indirect benefit of the Access Person as of the date the person became an Access Person, and (c) the date the report is submitted by the Access Person.

Timely submission of an Initial Holdings Report, along with a copy of the most recent monthly statement for each personal securities account and copies of all confirmation of transactions effected after the date of such statement, shall satisfy the requirements of this Section 6.2 regarding submission of an Initial Holdings Report.

6.3 An Access Person must submit (a) no later than thirty days after the end of each calendar quarter to the Compliance Officer a report containing the name of any broker, dealer or bank with whom the Access Person established an account in which any securities were held during the quarter for such person's direct or indirect benefit, the date the account was established and the date the report is submitted, and (b) a Quarterly Transactions Report in the form attached as Schedule C to the Compliance Officer no later than thirty days after the end of each calendar quarter containing the following information with respect to any transaction during the quarter in a security in which the Access Person had any direct or indirect beneficial ownership except purchases and sales specified in Section 4(a) and (c) of this Code:

(1) The date of the transaction, the title, the interest rate and maturity date (if applicable) and the number of shares, and the principal amount of each security involved;

(2) The nature of the transaction (*i.e.*, purchase, sale or other acquisition or disposition);

(3) The price at which the transaction was effected;

(4) The name of the broker, dealer or bank with or through whom the transaction was effected; and

(5) The date that the report is submitted by the Access Person.

An Access Person need not file a Quarterly Transaction Report for a calendar quarter if the Compliance Officer is being furnished with (a) confirmations and statements for all personal securities accounts of such Access Person, (b) duplicate monthly brokerage statements for all personal securities accounts on all transactions required to be reported hereunder, or (c) the requisite information on all transactions required to be reported hereunder through a transaction monitoring system, which may or may not be automated, in a manner acceptable to the Compliance Officer, provided that the Access Person has no reportable transactions other than those reflected in the confirmations and statements for such accounts.

6.4 Every Access Person must submit an Annual Holdings Report in the form attached as Schedule D to the Compliance Officer, which information must be current as of a date no more than forty-five days before the report is submitted containing the following information:

(a) The title and the number of shares, and the principal amount of each security in which the Access Person had any direct or indirect beneficial ownership;

(b) The name of any broker, dealer or bank with whom the Access Person maintains an account, provided that transaction effected in accounts as to which the Compliance Officer is being furnished with confirmations and statements need not be included in the Quarterly Transaction Report, provided that the report includes a certification that there are not reportable transactions other than those set forth in the Quarterly Transaction Report and in confirmations and statements for such accounts; and

(c) The date that the report is submitted by the Access Person.

Submission of the Annual Holdings Report, along with copies of the most recent monthly statement for each personal securities account, shall satisfy the requirements of this Section 6.4 regarding submission of an Annual Holdings Report.

6.5 Any report may also contain a statement declaring that the reporting or recording of any such transaction shall not be construed as an admission that the Access Person making the report has any direct or indirect beneficial ownership in the security to which the report relates.

7. Administration and Procedural Matters

7.1 The Compliance Officer shall:

(a) Maintain a current list of the names of all Access Persons, with an appropriate description in each case of the titles or employment of such persons, including a notation of any directorships held by Access Persons, and the date each such person became an Access Person.

(b) On an annual basis, furnish a copy of this Code to each Access Person;

(c) Notify each Access Person of his or her obligation to file reports as provided by this Code;

(d) Obtain Initial and Annual Holdings Reports from Access Persons and review Initial and Annual Holdings Reports;

(e) Report to the Board Members of the Fund the facts contained in any reports filed with the Compliance Officer pursuant to this Code when any such report indicates that a Access Person purchased or sold a security held or to be acquired by the Fund;

(f) Supervise the implementation of this Code by MCCA and the enforcement of the terms hereof by MCCA;

(g) Determine whether any particular securities transaction should be exempted pursuant to the provisions of this Code;

(h) Issue either personally or with the assistance of counsel as may be appropriate, any interpretation of this Code that may appear consistent with the objectives of Rule 17j-1 and this Code;

(i) Conduct such inspections or investigations as shall reasonably be required to detect and report any apparent violations of this Code to the Board Members of the Fund;

(j) Review reports submitted pursuant to this Code;

(k) Maintain and cause to be maintained in an easily accessible place, the following records:

(1) A copy of any Code adopted pursuant to Rule 17j-1 which has been in effect during the past five years;

(2) A record of any violation of any such Code and of any action taken as a result of such violation;

(3) A copy of each report made by the Compliance Officer during the past five years;

(4) A list of all persons who are, or within the past five years have been, required to make reports pursuant to Rule 17j-1, or who are or were responsible for reviewing these reports, with an appropriate description of their title or employment;

(5) A copy of each report made by an Access Person as required by Section 6 of the Code, including any information provided in lieu of the reports under Section 6 of the Code, during the past five years; and

(6) A copy of each report to the Board Members of the Fund required by Section 7.1(e) during the past five years; and.

(l) Perform such other duties as are set forth in this Code.

7.2 This Code may not be amended or modified except in a written form that is specifically approved by the Board Members of the Fund, including a majority of the Independent Board Members, within six months after such amendment or modification.

In connection with any such amendment or modification the Board Members must receive a certification from the Compliance Officer certifying that procedures reasonably necessary to prevent Access Persons from violating the Code, as proposed to be amended or modified, have been adopted.

7.3 The Compliance Officer may delegate to one or more other officers of MCCA such responsibilities of the Compliance Officer as he or she may deem

appropriate; provided, that: (a) any such delegation shall beset forth in writing and retained as part of the records of the applicable Fund and MCCA and (b) it shall be the responsibility of the Compliance Officer to supervise the performance by such persons of the responsibilities that have been delegated to them.

8. Selective Disclosure of Non-Public Information

8.1 A business development company is subject to Regulation FD under the 1934 Act, or fair disclosure, which requires any issuer, or anyone acting on its behalf, which discloses any material nonpublic information regarding the issuer or its portfolio securities, to any of a group of specified entities, to make public disclosure either simultaneously if the disclosure was intentional or promptly if the disclosure was non-intentional. Public disclosure means either filing a Form 8-K with the SEC disclosing the information or using another method reasonably designed to "provide broad, non-exclusionary distribution of the information to the public." Regulation FD defines "promptly" to mean no later than 24 hours or the commencement of the next day's trading on the New York Stock Exchange. The specified entities to whom nonpublic disclosure may have been made, whether intentionally or inadvertently, include broker-dealers, investment advisers, investment companies, and stockholders.

8.2 The Regulation FD requirement to make public disclosure does not apply to a disclosure made:

- To a person who owes a duty of trust or confidence to the issuer (e.g., the Fund's investment adviser, administrator or Fund counsel);
- To a person who expressly agrees to maintain the information in confidence;
- To credit rating agencies, provided the information is provided solely for the purpose of developing a credit rating and the ratings are publicly available; or
- In connection with a securities offering registered under the 1933 Act.

8.3 Unlike a mutual fund, the Fund is not required to describe its policies and procedures with respect to the disclosure of its portfolio securities in its registration statement. If questions regarding whether disclosing particular information may be a violation of Regulation FD arise, Fund officers should consult with Fund legal counsel.

9. Prohibition Against Insider Trading.

This Section is intended to satisfy the requirements of Section 204A of the Advisers Act, which is applicable to MCCA and requires that MCCA establish and enforce procedures designed to prevent the misuse of material, non-public information by its associated

persons. It applies to all Fund Employees. Trading securities while in possession of material, non-public information, or improperly communicating that information to others, may expose a Fund Employee to severe penalties. Criminal sanctions may include a fine of up to $1,000,000 and/or ten years imprisonment. The SEC can recover the profits gained or losses avoided through the violative trading, a penalty of up to three times the illicit windfall, and an order permanently barring the Fund Employee from the securities industry. Finally, the Fund Employee may be sued by investors seeking to recover damages for insider trading violations.

9.1 No Fund Employee may trade a security, either personally or on behalf of any other person or account (including any Fund), while in possession of material, non-public information concerning that security or the issuer thereof, nor may any Fund Employee communicate material, non-public information to others in violation of the law.

9.2 Information is "material" where there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decisions. Generally, this includes any information the disclosure of which will have a substantial effect on the price of a security. No simple test exists to determine when information is material; assessments of materiality involve a highly fact specific inquiry. For this reason, Fund Employees should direct any questions about whether information is material to the Compliance Officer. Material information often relates to a company's results and operations, including, for example, dividend changes, earnings results, changes in previously released earnings estimates, significant merger or acquisition proposals or agreements, major litigation, liquidation problems, and extraordinary management developments. Material information may also relate to the market for a company's securities. Information about a significant order to purchase or sell Securities may, in some contexts, be material. Pre-publication information regarding reports in the financial press may also be material.

9.3 Information is "public" when it has been disseminated broadly to investors in the marketplace. For example, information is public after it has become available to the general public through a public filing with the SEC or some other government agency, the Dow Jones "tape" or *The Wall Street Journal* or some other publication of general circulation, and after sufficient time has passed so that the information has been disseminated widely.

9.4 A Fund Employee, before executing any trade for himself or herself, or others, including the Fund or other accounts managed by MCCA or by a stockholder of the Advisor, or any affiliate of the stockholder ("Client Accounts"), must determine whether he or she has material, non-public information. A Fund Employee who believes he or she is in possession of material, non-public information must take the following steps:

(a) Report the information and proposed trade immediately to the Compliance Officer.

(b) Do not purchase or sell the securities on behalf of anyone, including Client Accounts.

(c) Do not communicate the information to any person, other than to the Compliance Officer.

After the Compliance Officer has reviewed the issue, MCCA will determine whether the information is material and non-public and, if so, what action the Advisor and the Fund Employee should take. Fund Employees must consult with the Compliance Officer before taking any action. This degree of caution will protect Fund Employees and the Adviser.

9.5 Contacts with public companies will sometimes be a part of an Advisor's research efforts. Persons providing investment advisory services to the Fund may make investment decisions on the basis of conclusions formed through such contacts and analysis of publicly available information. Difficult legal issues arise, however, when, in the course of these contacts, a Fund Employee becomes aware of material, non-public information. This could happen, for example, if a company's chief financial officer prematurely discloses quarterly results to an analyst, or an investor relations representative makes selective disclosure of adverse news to a handful of investors. In such situations, MCCA must make a judgment as to its further conduct. To protect yourself, clients and MCCA, you should contact the Compliance Officer immediately if you believe that you may have received material, non-public information.

10. Sanctions.

Any violation of this Code shall be subject to the imposition of such sanctions by the affected Fund and MCCA as may be deemed appropriate under the circumstances to achieve the purposes of Rule 17j-1 and this Code. Any sanctions to be imposed by the Fund shall be determined by the Committee of Independent Directors of the Fund. Any sanctions to be imposed by MCCA shall be designated by MCCA. Sanctions may include, but are not limited to, suspension or termination of employment, a letter of censure and/or payment to the Fund of any profits derived from securities transactions in violation of this Code.

11. Review of Reports.

The Compliance Officer shall be responsible for reviewing all reports filed with the Fund or MCCA pursuant to Section 6 of this Code. Such officer shall indicate on each report the date of his review and shall sign each report to indicate that it has been reviewed. Such officer shall report to the Committee of the Independent Directors of the Fund any violations of this Code that come to his or her attention in such review.

12. Investment Advisers.

Prior to retaining the services of an investment adviser or principal underwriter for the Fund, the Board of Directors of the Fund shall review the Code of Ethics adopted pursuant to paragraph (b)(1)(i) of Rule 17j-1 under the 1940 Act by such investment adviser or principal underwriter, and shall receive a certification from such investment adviser or principal underwriter that it has adopted such procedures as are necessary to prevent Access Persons from violating such code.

13. Periodic Review.

No less frequently than annually, the Compliance Officer shall furnish the Board of Directors of the Fund a report:

(a) Describing issues arising under this Code of Ethics since the last report to the Board, including but not limited to, information about material violations of the Code, sanctions imposed in response to such violations, changes made to the Code or procedures, and any proposed or recommended changes to the Code or procedures, and

(b) Certifying that the Fund and MCCA each have adopted such procedures as are reasonably necessary to prevent Access Persons from violating the Code.

14. Confidentiality.

All information obtained from any Access Person hereunder shall be kept in strict confidence, except that reports of securities transactions hereunder will be made available to the SEC or any other regulatory or self-regulatory organization only to the extent required by law or regulation.

15. Other Laws, Rules, and Statements of Policy.

Nothing contained in this Code shall be interpreted as relieving any Access Person from acting in accordance with the provisions of any applicable law, rule or regulation or any other statement of policy or procedure governing the conduct of such person adopted by the Fund or MCCA.

16. Further Information.

If any person has any question with regard to the applicability of the provisions of this Code generally or with regard to any securities transaction or transactions, he or she should consult the Compliance Officer.

17. Certification by Access Persons.

All Access Persons of the Company must submit a certificate (a form of which is attached as Schedule E) that they have read and understand this Code and recognize that as an Access Person they are subject to the terms of this Code. All Access Persons of the Fund or MCCA shall agree to certify on an annual basis (a form of which is attached as Schedule F) that they have complied with the requirements of this Code and that they have disclosed or reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of this Code.

Exhibit 10(g)

LOAN AGREEMENT

Between
and

EQUUS TOTAL RETURN, INC.

REGIONS BANK

f/k/a EQUUS II INCORPORATED

3272 Westheimer, Suite #1

2727 Allen Parkway, Suite 1300

Houston, Texas 77098

Houston, Texas 77019

August 18, 2006

THIS LOAN AGREEMENT (the "Loan Agreement") will serve to set forth the terms of the financing transactions by and between EQUUS TOTAL RETURN, INC., formerly known as EQUUS II INCORPORATED, a Delaware corporation ("Borrower"), and REGIONS BANK, an Alabama state banking corporation ("Lender"):

1. *Credit Facility*. Subject to the terms and conditions set forth in this Loan Agreement and the other agreements, instruments and documents evidencing, securing, governing, guaranteeing and/or pertaining to the Loan, as hereinafter defined (collectively, together with the Loan Agreement, referred to hereinafter as the "Loan Documents"), Lender hereby agrees to provide to Borrower the credit facility described below (the "Credit Facility"):

Borrowing Base Line of Credit. Subject to the terms and conditions set forth herein, Lender agrees to lend to Borrower, on a revolving basis from time to time during the period commencing on the date hereof and continuing through the maturity date of the Note (as defined below), such amounts as Borrower may request hereunder; provided, however, the total principal amount outstanding at any time shall not exceed the lesser of (i) an amount equal to the Borrowing Base (as such term is defined hereinbelow), or (ii) $10,000,000.00 (the "Borrowing Base Line of Credit"). If at any time the aggregate principal amount outstanding under the Borrowing Base Line of Credit shall exceed an amount equal to the Borrowing Base, Borrower agrees to immediately repay to Lender such excess amount, plus all accrued but unpaid interest thereon. Subject to the terms and conditions hereof, Borrower may borrow, repay and reborrow hereunder. The sums disbursed under the Borrowing Base Line of Credit (each of such disbursements being hereinafter called an "Advance") shall be used for working capital and operating expenses.

Clean Down Period. During the period commencing on the date of this Loan Agreement and ending December 31, 2007, Borrower covenants and agrees that there shall be a period of at least sixty (60) consecutive days during which (a) there are no Advances outstanding and (b) no Advances will be made.

As used in this Loan Agreement, the term "Borrowing Base" shall mean an amount equal to 20% of Borrower's Eligible Portfolio Value (hereinafter defined).

As used herein the term "Eligible Portfolio Value" shall mean, at any time, the difference between Borrower's Portfolio Value (hereinafter defined) and Borrower's Ineligible Investments (hereinafter defined); provided there shall be excluded from the calculation of Eligible Portfolio Value that portion of any investment in a single entity which exceeds twenty percent (20%) of the aggregate Eligible Portfolio Value calculated without giving effect to such limitation; provided further, however, on a case by case basis the Borrower may request that for a particular investment in an entity the twenty percent (20%) limit may be increased at closing or after Borrower receives a bona fide third party offer to purchase such investment in such entity and the Lender may approve such request at its sole and absolute discretion. The term "Portfolio Value" shall mean the value, as reflected on the then most current Investment History and Portfolio Valuation Report (hereinafter defined) prepared and presented to Lender in accordance with the provisions of Section 9(c) of this Loan Agreement, of the Collateral (hereinafter defined). The term "Ineligible Investments" means any portion of the Collateral which represents an investment by Borrower in a company or other entity which is in bankruptcy or which is in default under any loan to such company or other entity and as to which loan (i) all cure periods have expired and (ii) no written waivers of such default have been issued by the lender under such loan. The sale or other disposition by Borrower of any portion of the Collateral shall result in an immediate reduction in Eligible Portfolio Value, which reduction shall be equal to the value assigned to such sold or disposed of Collateral in the then most current Investment History and Portfolio Valuation Report (hereinafter defined) prepared and presented to Lender in accordance with the provisions of Section 9(c) of this Loan Agreement. Borrower shall be permitted to increase or decrease the Eligible Portfolio Value, by the addition or deletion of Collateral, provided that at the time Borrower elects to delete Collateral, (i) no Event of Default (hereinafter defined) exists and (ii) such deletion does not cause the then outstanding principal balance of the Note to exceed the Borrowing Base, as the Borrowing Base will exist after the deletion of such Collateral.

Lender agrees, to the extent Borrower is entitled to any release of Collateral under the terms of this Agreement or any other Loan Document, upon receipt of a request from Borrower, to promptly execute any written release of pledge required

by The Frost National Bank, as custodian of the Collateral, as required pursuant to Section 4 of that certain Safekeeping Agreement (Corporate – No Foreign Securities) dated as of March 15, 2004, as amended, between The Frost National Bank and Borrower.

All Advances under the Credit Facility shall be collectively called the "Loan". Each request for an Advance shall be evidenced by Borrower's delivery to Lender of a Borrowing Request substantially in the form attached as Exhibit B hereto (the "Borrowing Request"). Each continuation or conversion of the interest rate election made by Borrower with respect to Advances outstanding under the Note (as hereinafter defined) shall be evidenced by Borrower's delivery to Lender of a Conversion/Continuation Notice substantially in the form attached as Exhibit C hereto (the "Conversion/Continuation Notice").

2. *Promissory Note*. The Credit Facility shall be evidenced by one promissory note (together with any renewals, extensions and increases thereof, the "Note") duly executed by Borrower and payable to the order of Lender, in substantially the form attached as Exhibit A hereto. Interest on the Note shall accrue at the rate set forth therein. The principal of and interest on the Note shall be due and payable in accordance with the terms and conditions set forth in the Note and in this Loan Agreement.

3. *Collateral*. As collateral and security for the indebtedness evidenced by the Note and any and all other indebtedness or obligations from time to time owing by Borrower to Lender in connection with any Loan Document, Borrower has granted to Lender, its successors and assigns, concurrently herewith under the Pledge and Security Agreement dated as of the date hereof made by Borrower in favor of Lender (the "Pledge and Security Agreement"), a lien and security interest in and to the Collateral (as defined in the Pledge and Security Agreement, the "Collateral"). Borrower agrees to execute such security agreements, assignments, and other agreements and documents as Lender shall reasonably deem appropriate and otherwise reasonably require from time to time to more fully create and perfect Lender's lien and security interests in the Collateral and other agreements and documents as Lender shall deem appropriate and otherwise reasonably require from time to time to more fully create and perfect Lender's lien and security interests in the Collateral.

4. *Representations and Warranties*. Borrower hereby represents and warrants, and upon each request for an Advance under the Credit Facility further represents and warrants, to Lender as follows:

(a) Existence. Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, is duly qualified and in good standing under the laws of all other states where it is doing business, and has all requisite power and authority to execute and deliver the Loan Documents.

(b) Binding Obligations. The execution, delivery, and performance of this Loan Agreement and all of the other Loan Documents by Borrower have been duly authorized by all necessary action by Borrower, and constitute legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency or similar laws of general application relating to the enforcement of creditors' rights and except to the extent specific remedies may generally be limited by equitable principles.

(c) No Consent. The execution, delivery and performance of this Loan Agreement and the other Loan Documents, and the consummation of the transactions contemplated hereby and thereby, do not (i) conflict with, result in a violation of, or constitute a default under (A) any provision of its articles or certificate of incorporation or bylaws, or any agreement or other instrument binding upon Borrower, or (B) any law, governmental regulation, court decree or order applicable to Borrower, or (ii) require the consent, approval or authorization of any third party.

(d) Financial Condition. Each financial statement of Borrower supplied to the Lender truly discloses and fairly presents Borrower's financial condition as of the date of each such statement. There has been no material adverse change in such financial condition or results of operations of Borrower subsequent to the date of the most recent financial statement supplied to Lender.

(e) Litigation. There are no actions, suits or proceedings, pending or, to the knowledge of Borrower, threatened against or affecting Borrower or the properties of Borrower, before any court or governmental department, commission or board, which, if determined adversely to Borrower, would have a material adverse effect on the financial condition, properties, or operations of Borrower.

(f) Taxes; Governmental Charges. Borrower has filed all material federal, state and local tax reports and returns required by any law or regulation to be filed by it and has either duly paid all material taxes, duties and charges indicated due on the basis of such returns and reports, or made adequate provision for the payment thereof, and the assessment of any material amount of additional taxes in excess of those paid and reported is not reasonably expected.

(g) Margin Regulations. If at any time any of the Collateral consists of "margin stock" (within the meaning of Regulations T, U or X of the Board of Governors of the Federal Reserve System (collectively, the "Margin Regulations")) ("Margin Stock"), the Advances do not violate the Margin Regulations.

5. *Conditions Precedent to Advances and Fees*.

(a) *Conditions Precedent to Initial Advance*. Lender's obligation to make the initial Advance under this Loan Agreement and the other Loan Documents shall be subject to the conditions precedent that, as of the date of such initial Advance (i) Borrower shall have executed and delivered to Lender the Loan Documents, (ii) Borrower shall have provided evidence satisfactory to Lender that the execution and delivery of the Loan Documents by Borrower was duly authorized by Borrower's board of directors and (iii) Borrower shall have requested and obtained from Borrower's counsel an opinion letter, addressed to Lender, covering, among other things, the organization, existence, and authorization of Borrower and its representatives, the due execution and delivery of the Loan Documents, the validity and enforceability of the Loan Documents, and such other matters as Lender may reasonably request.

(b) *Conditions Precedent to All Advances*. Lender's obligation to make any Advance under this Loan Agreement and the other Loan Documents shall be subject to the conditions precedent that, as of the date of such Advance and after giving effect thereto (i) all representations and warranties made to Lender in this Loan Agreement and the other Loan Documents shall be true and correct, as of and as if made on such date, (ii) no material adverse change in the financial condition of Borrower since the effective date of the most recent financial statements furnished to Lender by Borrower shall have occurred and be continuing, (iii) no event has occurred and is continuing, or would result from the, requested Advance, which with notice or lapse of time, or both, would constitute an Event of Default, (iv) Lender's receipt of all Loan Documents appropriately executed by Borrower and all other proper parties and (v), in the event that at the time of the requested Advance any Collateral consists of Margin Stock, the Borrower shall have delivered to Lender Federal Reserve Form U-1 (or any successor form), which shall contain statements that, in the reasonable judgment of the Lender, permit the requested Advance to be made in compliance with the Margin Regulations.

(c) *Unused Fees*. Borrower acknowledges that Lender will be required to hold funds available for Advances to Borrower under the terms of this Loan Agreement even if Borrower does not elect to make borrowings under the Credit Facility. In consideration of Lender's holding the availability of such unborrowed funds Borrower agrees to pay to Lender, monthly in arrears on the same date that interest is due and payable under the Note, an unused commitment fee in an amount equal to one-quarter of one percent (1/4%) per annum, computed on a per annum basis of a year of 360 days and for the actual number of days elapsed, calculated on a daily basis, of the amount of the Credit Facility which was not borrowed by Borrower during the previous quarter.

6. *Affirmative Covenants*. Until (i) the Note and all other obligations and liabilities of Borrower under this Loan Agreement and the other Loan Documents are fully paid and satisfied, and (ii) the Lender has no further commitment to lend hereunder, Borrower agrees and covenants that it will, unless Lender shall otherwise consent in writing:

(a) *Accounts and Records*. Maintain its books and records in accordance with generally accepted accounting principles.

(b) *Right of Inspection*. Permit Lender to visit its properties and installations and to examine, audit and make and take away copies or reproductions of Borrower's books and records, at all reasonable times.

(c) *Right to Additional Information*. Furnish Lender with such additional information and statements, lists of assets and liabilities, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may reasonably request from time to time.

(d) *Compliance with Laws*. Conduct its business in an orderly and efficient manner consistent with good business practices, and perform and comply with all material statutes, rules, regulations and/or ordinances imposed by any governmental unit upon Borrower and its businesses, operations and properties (including without limitation, all applicable environmental statutes, rules, regulations and ordinances).

(e) *Taxes*. Pay and discharge when due all of its indebtedness and other material obligations, including without limitation, all material assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all material lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits; provided, however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (i) the legality of the same shall be contested in good faith by appropriate judicial, administrative or other legal proceedings, and (ii) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien or claim in accordance with generally accepted accounting principles, consistently applied.

(f) *Insurance*. Maintain insurance, including but not limited to, fire insurance, comprehensive property damage, public liability, worker's compensation, business interruption and other insurance reasonably deemed necessary or otherwise reasonably required by Lender.

(g) *Notice of Indebtedness*. Promptly inform Lender of the creation, incurrence or assumption by Borrower of any actual or contingent liabilities not permitted under this Loan Agreement.

(h) *Notice of Litigation*. Promptly after the commencement thereof, notify Lender of all actions, suits and proceedings before any court or any governmental department, commission or board affecting Borrower or any of its properties.

(i) *Notice of Material Adverse Change*. Promptly inform Lender of (i) any and all material adverse changes in Borrower's financial condition, and (ii) all claims made against Borrower which could materially affect the financial condition of Borrower.

(j) *Additional Documentation*. Execute and deliver, or cause to be executed and delivered, any and all other agreements, instruments or documents which Lender may reasonably request in order to give effect to the transactions contemplated under this Loan Agreement and the other Loan Documents.

(k) *Press Releases*. Deliver to Lender, by facsimile or email, and simultaneously with their issuance, copies of all press releases issued by Borrower.

7. *Negative Covenants*. Until (i) the Note and all other obligations and liabilities of Borrower under this Loan Agreement and the other Loan Documents are fully paid and satisfied, and (ii) the Lender has no further commitment to lend hereunder, Borrower will not, without the prior written consent of Lender:

(a) *Nature of Business*. Make any material change in the nature of its business as carried on as of the date hereof.

(b) *Liquidations, Mergers, Consolidations*. Liquidate, merge or consolidate with or into any other entity unless the Borrower is the survivor of such merger or consolidation.

(c) *Sale of Assets*. Sell, transfer or otherwise dispose of any of its assets or properties, other than in the ordinary course of business.

(d) *Liens*. Create or incur any lien or encumbrance on any of its assets, other than (i) liens and security interests securing indebtedness and other obligations owing to Lender, (ii) liens for taxes, assessments or similar charges that are (1) not yet due or (2) being contested in good faith by appropriate proceedings and for which Borrower has established adequate reserves, (iii) liens and security interests existing as of the date hereof which have been disclosed to and approved by Lender in writing, (iv) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable person or entity; (v) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any lien imposed by Employee Retirement Income Security Act of 1974, as amended; (vi) deposits to secure the performance of bids, trade contracts and leases, statutory obligations, surety bonds (other than bonds related to judgments or litigation), performance bonds and other obligations of a like nature incurred in the ordinary course of business; (vii) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable person or entity; (viii) liens securing judgments for the payment of money not constituting an Event of Default under Section 10(h) or securing appeal or other surety bonds related to such judgments; (x) liens in cash or cash equivalents securing RIC Borrowings (as hereinafter defined) permitted by Section 7(e)(iii); and (x) liens securing indebtedness permitted under Section 7(e)(iv), provided that (A) such liens do not at any time encumber any property other than the property financed by such Indebtedness and (B) the indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition.

(e) *Indebtedness*. Create, incur or assume any indebtedness for borrowed money or issue or assume any other note, debenture, bond or other evidences of indebtedness, or guarantee any such indebtedness or such evidences of indebtedness of others, other than (i) borrowings from Lender; (ii) borrowings outstanding on the date hereof and disclosed in writing to Lender; (iii) quarterly borrowings ("RIC Borrowings") in such amounts as are necessary for Borrower to maintain its status as a "Regulated Investment Company" under the provisions of the Internal Revenue Code of 1986, as amended, or any successor statute; provided however that each such RIC Borrowing shall be repaid in full within ten (10) days after the date on which such RIC Borrowing is made; (iv) indebtedness in respect of capital leases, synthetic lease obligations and purchase money obligations for fixed or capital assets within the limitations set forth in Section 7(d)(x), provided that the aggregate amount of all such Indebtedness at any one time outstanding shall not exceed $500,000; and (v) guaranties of any obligations permitted in clauses (i) through (iv) above.

(f) *Change in Management*. Permit a change in the executive management of Borrower.

(g) *Transactions with Affiliates*. Enter into any transaction, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate (as hereinafter defined) of Borrower, except upon terms no less favorable to Borrower than would be obtained in a comparable arm's-length transaction with a person or entity not an Affiliate of Borrower. As used herein, the term "Affiliate" means any individual or entity directly or indirectly controlling, controlled by, or under common control with, another individual or entity.

8. *Financial Covenant*. Until (i) the Note and all other obligations and liabilities of Borrower under this Loan Agreement and the other Loan Documents are fully paid and satisfied, and (ii) the Lender has no further commitment to lend hereunder, Borrower will maintain, at all times, a ratio of (a) total liabilities as reflected on the Borrower's balance sheet in accordance with generally accepted accounting principles to (b) Net Asset Value of not greater than 1.1 to 1.0.

As used herein, the term "Net Asset Value" means, as of any date, Borrower's total assets less Borrower's total liabilities, which, in each case would be required to be reflected on a balance sheet of Borrower in accordance with generally accepted accounting principles, except any of the foregoing that are Excluded Assets (as defined in the Pledge and Security Agreement).

9. *Reporting Requirements*. Until (i) the Note and all other obligations and liabilities of Borrower under this Loan Agreement and the other Loan Documents are fully paid and satisfied, and (ii) the Lender has no further commitment to lend hereunder, Borrower will, unless Lender shall otherwise consent in writing, furnish to Lender:

(a) *SEC Quarterly Reports*. As soon as available, and in any event within forty-five (45) days after the end of each fiscal quarter of each fiscal year of Borrower, Borrower's Form 10-Q filed with the Securities and Exchange Commission for the preceding fiscal quarter pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

(b) *SEC Annual Reports*. As soon as available, and in any event within ninety (90) days after the end of each fiscal year of Borrower, Borrower's Form 10-K filed with the Securities and Exchange Commission for the preceding fiscal year pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

(c) *History and Valuation*. As soon as available and in any event within sixty (60) days after the end of each fiscal quarter of each fiscal year of Borrower, an Investment History and Portfolio Valuation Report (herein so called and in form and substance substantially the same as historically prepared by Borrower) setting forth in detail reasonably satisfactory to Lender the history and valuation of Borrower's investment portfolio and reflecting that such Investment History and Portfolio Valuation has been approved by Borrower's board of directors and Borrower's auditors from an independent public accounting firm of recognized standing reasonably acceptable to Lender.

(d) *Compliance Certificate*. A certificate signed by the President or Chief Financial Officer of Borrower within forty-five (45) days after the end of each calendar month, stating that Borrower is in full compliance with all of its obligations under this Loan Agreement and all other Loan Documents and is not in default of any term or provisions hereof or thereof, and demonstrating compliance with all financial ratios and covenants set forth in this Loan Agreement.

(e) *Borrowing Base Report*. A borrowing base report, reasonably satisfactory to Lender in form, substance and detail, signed by the President or Chief Financial Officer of Borrower, within sixty (60) days after the end of each fiscal quarter of each fiscal year of Borrower.

10. *Events of Default*. Each of the following shall constitute an "Event of Default" under this Loan Agreement:

(a) The failure, refusal or neglect of Borrower to pay when due any part of the principal of, or interest on, the Note or any other indebtedness or obligations owing to Lender by Borrower from time to time and the failure of Borrower to cure such default within 3 Business Days after written notice from Lender specifying such default.

(b) The failure of Borrower to timely and properly observe, keep or perform any covenant, agreement, warranty or condition required herein or in any of the other Loan Documents (other than as described in clause (a) above) and the failure of Borrower to cure such default within 15 days after written notice from Lender specifying such default.

(c) Any representation contained herein or in any of the other Loan Documents made by Borrower is false or misleading in any material respect.

(d) The occurrence of any event which permits the acceleration of the maturity of any indebtedness with a principal amount in excess of $50,000 owing by Borrower to any third party under any agreement or understanding.

(e) If Borrower: (i) becomes insolvent, or makes a transfer in fraud of creditors, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts as they become due; (ii) generally is not paying its debts as such debts become due; (iii) has a receiver, trustee or custodian appointed for, or take possession of, all or substantially all of the assets of such party, either in a proceeding brought by such party or in a proceeding brought against such party and such appointment is not discharged or such possession is not terminated within sixty (60) days

after the effective date thereof or such party consents to or acquiesces in such appointment or possession; (iv) files a petition for relief under the United States Bankruptcy Code or any other present or future federal or state insolvency, bankruptcy or similar laws (all of the foregoing hereinafter collectively called "Applicable Bankruptcy Law") or an involuntary petition for relief is filed against such party under any Applicable Bankruptcy Law and such involuntary petition is not dismissed within sixty (60) days after the filing thereof, or an order for relief naming such party is entered under any Applicable Bankruptcy Law, or any composition, rearrangement, extension, reorganization or other relief of debtors now or hereafter existing is requested or consented to by such party; (v) fails to have discharged within a period of thirty (30) days any attachment, sequestration or similar writ levied upon any property of such party; or (vi) fails to pay within thirty (30) days any final money judgment against such party.

(f) The liquidation, dissolution, merger or consolidation of Borrower except as permitted under Section 7(b).

(g) The entry of any judgment against Borrower or the issuance or entry of any attachment or other lien against any of the property of Borrower for an amount in excess of $100,000.00, if undischarged, unbonded or undismissed within thirty (30) days after such entry.

Nothing contained in this Loan Agreement shall be construed to limit the events of default enumerated in any of the other Loan Documents and all such events of default shall be cumulative.

11. *Remedies*. Upon the occurrence of any one or more of the foregoing Events of Default, (a) the entire unpaid balance of principal of the Note, together with all accrued but unpaid interest thereon, and all other indebtedness owing to Lender by Borrower at such time shall, at the option of Lender, become immediately due and payable without further notice, demand, presentation, notice of dishonor, notice of intent to accelerate, notice of acceleration, protest or notice of protest of any kind, all of which are expressly waived by Borrower, and (b) Lender may, at its option, cease further Advances under the Note. All rights and remedies of Lender set forth in this Loan Agreement and in any of the other Loan Documents may also be exercised by Lender, at its option to be exercised in its sole discretion, upon the occurrence of an Event of Default.

12. *Rights Cumulative*. All rights of Lender under the terms of this Loan Agreement shall be cumulative of, and in addition to, the rights of Lender under any and all other agreements between Borrower and Lender (including, but not limited to, the other Loan Documents), and not in substitution or diminution of any rights now or hereafter held by Lender under the terms of any other agreement.

13. *Waiver and Agreement*. Neither the failure nor any delay on the part of Lender to exercise any right, power or privilege herein or under any of the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. No waiver of any provision in this Loan Agreement or in any of the other Loan Documents and no departure by Borrower therefrom shall be effective unless the same shall be in writing and signed by Lender, and then shall be effective only in the specific instance and for the purpose for which given and to the extent specified in such writing. No modification or amendment to this Loan Agreement or to any of the other Loan Documents shall be valid or effective unless the same is signed by the party against whom it is sought to be enforced.

14. *Benefits*. This Loan Agreement shall be binding upon and inure to the benefit of Lender and Borrower, and their respective successors and assigns, provided, however, that Borrower may not, without the prior written consent of Lender, assign any rights, powers, duties or obligations under this Loan Agreement or any of the other Loan Documents.

15. *Notices*. All notices, requests, demands or other communications required or permitted to be given pursuant to this Agreement shall be in writing and given by (i) personal delivery, (ii) expedited delivery service with proof of delivery, or (iii) United States mail, postage prepaid, registered or certified mail, return receipt requested, sent to the intended addressee at the address set forth on the first page hereof and shall be deemed to have been received either, in the case of personal delivery, as of the time of personal delivery, in the case of expedited delivery service, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of mail, upon deposit in a depository receptacle under the care and custody of the United States Postal Service. Either party shall have the right to change its address for notice hereunder to any other location within the continental United States by notice to the other party of such new address at least thirty (30) days prior to the effective date of such new address.

16. *Construction*. This Loan Agreement and the other Loan Documents have been executed and delivered in the State of Texas, shall be governed by and construed in accordance with the laws of the State of Texas, and shall be performable by the parties hereto in the county in Texas where the Lender's address set forth on the first page hereof is located.

17. *Invalid Provisions*. If any provision of this Loan Agreement or any of the other Loan Documents is held to be illegal, invalid or unenforceable under present or future laws, such provision shall be fully severable and the remaining

provisions of this Loan Agreement or any of the other Loan Documents shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance.

18. *Expenses*. Borrower shall pay all costs and expenses (including, without limitation, reasonable attorneys' fees) in connection with (i) the preparation, negotiation, execution and delivery of the Loan Documents, (ii) any action required in the course of administration of the indebtedness and obligations evidenced by the Loan Documents, and (iii) any action in the enforcement of Lender's rights upon the occurrence of Event of Default.

19. *Participation of the Loan*. Borrower agrees that Lender may, at its option, sell interests in the Loan and its rights under this Loan Agreement to a financial institution or institutions and, in connection with each such sale, Lender may disclose any financial and other information available to Lender concerning Borrower to each prospective purchaser.

20. *Conflicts*. In the event any term or provision hereof is inconsistent with or conflicts with any provision of the other Loan Documents, the terms and provisions contained in this Loan Agreement shall be controlling.

21. *Counterparts*. This Loan Agreement may be separately executed in any number of counterparts, each of which shall be an original, but all of which, taken together, shall be deemed to constitute one and the same instrument.

22. *Facsimile Documents and Signatures*. For purposes of negotiating and finalizing this Loan Agreement, if this document or any document executed in connection with it is transmitted by facsimile machine ("fax"), it shall be treated for all purposes as an original document. Additionally, the signature of any party on this document transmitted by way of a facsimile machine shall be considered for all purposes as an original signature. Any such faxed document shall be considered to have the same binding legal effect as an original document. At the request of any party, any faxed document shall be re-executed by each signatory party in an original form.

If the foregoing correctly sets forth our mutual agreement, please so acknowledge by signing and returning this Loan Agreement to the undersigned.

NOTICE TO COMPLY WITH STATE LAW

For the purpose of this Notice, the term "WRITTEN AGREEMENT" shall include the document set forth above, together with each and every other document relating to and/or securing the same loan transaction, regardless of the date of execution.

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

BORROWER

EQUUS TOTAL RETURN, INC.,
formerly known as EQUUS II INCORPORATED,
a Delaware corporation

By: /s/ Harry O. Nicodemus, IV
Harry O. Nicodemus, IV
Chief Financial Officer

LENDER:

REGIONS BANK,
an Alabama state banking
corporation

By: /s/ Terry A. Pruden
Terry A. Pruden
Executive Vice President

Exhibit A

REVOLVING CREDIT NOTE

$10,000,000.00 Houston, Texas August 18, 2006

1. FOR VALUE RECEIVED, and as hereinafter provided EQUUS TOTAL RETURN, INC., formerly known as EQUUS II INCORPORATED, a Delaware corporation (the "Borrower"), promises and agrees to pay unto the order of REGIONS BANK, an Alabama state banking corporation (the "Lender"), at its office located at 3272 Westheimer, Suite #1, Houston, Harris County, Texas 77098, or at such other address or addresses as Lender may from time to time designate in writing to Borrower, in immediately available funds in lawful currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, the sum of up to TEN MILLION AND NO/100 DOLLARS ($10,000,000.00), or so much thereof as may be advanced pursuant to the hereinafter described Loan Agreement, together with interest on the unpaid principal balance from time to time owing hereunder from the date of advance hereunder until maturity, and otherwise in strict accordance with the terms and provisions hereof.

2. As used herein, the following terms shall have the meanings assigned:

"Borrowing Date" means any Business Day on which Lender advances to Borrower a portion of the Loan hereunder.

"Borrowing Notice" shall mean a notice in writing given by Borrower to Lender substantially in the form of Exhibit B to the Loan Agreement requesting a Loan under the Loan Agreement.

"Business Day" means a day when Lender is open for business, other than a Saturday or Sunday.

"Control Account Agreement" means that certain Control Account Agreement of even date herewith among Borrower, Lender and The Frost National Bank.

"Conversion/Continuation Notice" shall mean a notice in writing given by Borrower to Lender substantially in the form of Exhibit C to the Loan Agreement specifying the amount of Loans to be converted, or continued at the Libor Rate and the applicable Interest Period.

"Conversion Date" shall have the meaning specified in Paragraph 4(b) below.

"Default Rate" means a per annum rate equal to the lesser of (a) Prime plus two percent (2%), and (b) the Maximum Rate.

"Event of Default" means the occurrence of an Event of Default (as defined in the Loan Agreement).

"Interest Period" means, as to any Libor Loan, the period commencing on the date such Libor Loan is disbursed or converted to or continued as a Libor Loan and ending on the date one, three, or six months thereafter, as selected by the Borrower in its Borrowing Notice or Conversion/Continuation Notice, or such other period that is twelve months or less requested by the Borrower and consented to by the Lender; provided that (i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day; (ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and (iii) no Interest Period shall extend beyond the Maturity Date.

"Libor" means, with respect to any Interest Period, that rate for deposits in U.S. dollars for a period comparable to the term of such Interest Period which appears on Telerate Page 3750 as of 11:00 a.m., London, England time on the day (the "Pricing Date") that is two LIBOR Business Days preceding the first day of such Interest Period, as such rate is published on the Business Day next following the Pricing Date in the Money Market Section of the Wall Street Journal. If such rate cannot be so determined for any reason, Lender will request the principal London office of at least two banks to provide a quotation of its rate for deposits in U.S. dollars for a period comparable to the applicable Interest Period and the rate for such Interest Period will be the arithmetic mean of such quotations.

"LIBOR Business Day" means a Business Day on which dealings in U.S. dollar deposits are carried out in the London interbank market.

"LIBOR Loan" means any Loan that bears interest at the Libor Rate.

"Libor Rate" means an interest rate per annum (rounded upward to the nearest multiple of 1/1000th of one percent per annum and determined on a daily basis for the actual number of days elapsed based on a 360 day year) which is equal to the sum of (a) Libor, *plus* (b) two hundred fifty basis points (250 bps).

"Loan Agreement" means that certain Loan Agreement executed by Borrower and Lender of even date herewith.

"Loan Documents" means this Note, the Loan Agreement, and other documents evidencing, securing and relating to the Loan.

"Loan(s)" means the Loan(s) evidenced by this Note, from the date hereof to the Maturity Date, during which period advances may be allowed up to the principal amount of this Note, bearing interest as herein set forth, and being payable in installments as herein set forth. All references to the Loan or Loans shall be references to the single indebtedness evidenced by the Note. The Loan is a revolving loan. Any sums repaid may be reborrowed, subject to the limitations set forth in the Loan Agreement.

"Maturity Date" means December 31, 2007.

"Maximum Rate" means, with respect to the holder hereof, the maximum nonusurious interest rate, if any, that at any time, or from time to time, may be under applicable law contracted for, taken, reserved, charged or received on the indebtedness evidenced by this Note.

"Pledge and Security Agreement" means that certain Pledge and Security Agreement of even date herewith from Borrower in favor of Lender.

"Prime" means the rate per annum published in the Money Rates section of The Wall Street Journal (Southwest Edition) and identified therein as the highest "Prime Rate." If The Wall Street Journal Prime Rate ceases to be made available by the publisher, or any successor to the publisher, then the Prime Rate shall mean the Prime Rate of interest charged by the Lender as established from time to time. Without notice to the Borrower or any other person, the Prime Rate shall change automatically from time to time as and in the amount by which such rate shall fluctuate, with each such change to be effective as of the date of each change in such rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer of Lender. The Lender may make commercial loans or other loans at rates of interest at, above or below the Prime Rate.

"Prime Rate" means an interest rate per annum which is equal to (a) Prime, *plus* (b) zero percent (0.00%).

"Usury Laws" means all applicable federal or state usury laws regarding the use, forbearance, or detention of money.

3. Interest shall accrue on the outstanding principal balance of this Note, or any portion hereof, as follows:

(a) Commencing on the date hereof and continuing until and including the Maturity Date at a rate equal to (i) the lesser of the Prime Rate or the Maximum Rate as to any portion of the Loan for which Borrower has elected the Prime Rate, and (ii) the lesser of the applicable Libor Rate(s) or the Maximum Rate as to any portion(s) of the Loan for which Borrower has elected the Libor Rate.

(b) If at any time and from time to time the rates of interest calculated pursuant to the Prime Rate or the Libor Rate would exceed the Maximum Rate, thereby causing the interest payable hereon to be limited to the Maximum Rate, then any subsequent reduction in the Prime Rate or the Libor Rate shall not reduce the rate of interest hereon below the Maximum Rate until the total amount of interest accrued hereon from and after the date of the first advance hereunder equals the amount of interest which would have accrued hereon if the rate specified in the applicable Prime Rate or Libor Rate above had at all times been in effect.

4. Borrower shall elect either the Prime Rate or Libor Rate with respect to the outstanding balance of the Loan or any portion thereof as follows:

(a) Borrower shall, in accordance with this Paragraph 4, give Lender notice of the interest option selected with respect to each borrowing made pursuant to the Loan Agreement. If Borrower wishes to select the Libor Rate to apply to a portion of the Loan, Borrower shall so specify in the Borrowing Notice given Lender, which Borrowing Notice must be received by Lender at least three (3) Libor Business Days prior to the applicable Borrowing Date. If the required Borrowing Notice shall not have been timely received by Lender, Borrower shall be deemed to have selected the Prime Rate to be applicable to such portion of the Loan upon the applicable Borrowing Date.

(b) The date of conversion from one type of interest rate to another is called a "Conversion Date". Borrower may convert all or a portion of the Loans from the Prime Rate to the Libor Rate and vice versa. Such conversion shall be effected by Borrower by timely giving Lender a Conversion/Continuation Notice for conversion to the Libor Rate or the Prime Rate, as applicable. The date of continuation of a Libor Loan to another Libor Loan at the end of an Interest Period is called a "Continuation Date". Borrower may continue all or a portion of the Libor Loans from one Interest

Period to another. Such continuation shall be effected by Borrower by timely giving Lender a Conversion/Continuation Notice specifying such continuation.

5. This Note and the Loan evidenced hereby shall be due and payable as follows:

(a) All accrued unpaid interest on the outstanding principal balance of this Note shall be due and payable in monthly installments as it accrues, with the first installment due and payable on the date which is the 30th day of September 2006, and continuing monthly thereafter on the last day of each succeeding calendar month until the Maturity Date.

(b) The entire principal sum of this Note then remaining unpaid, together with all accrued, unpaid interest thereon, shall be due and payable on the Maturity Date.

(c) Borrower is and shall be obligated to pay all principal, interest and any and all other amounts which become payable under this Note or under any of the other Loan Documents absolutely and unconditionally and without any abatement, postponement, diminution or deduction whatsoever and without any reduction for counterclaim or setoff whatsoever.

6. At any time and from time to time, Borrower on any Business Day may prepay the principal of the Loan then outstanding in whole or in part without premium or penalty. All payments and prepayments of principal and/or interest to Lender shall be made by Borrower to Lender before 11:00 a.m. (Houston, Texas time), in federal or other immediately available funds at Lender's banking office specified in the first paragraph of this Note. Any payment or prepayment received by Lender after 11:00 a.m. (Houston, Texas time) shall be deemed to have been received by Lender on the next succeeding Business Day. Should the principal of or interest on any Loan, or any expense or fee, become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day.

7. All payments hereunder, whether designated as payments of principal or interest, shall be applied, in such order as Lender shall in its sole discretion determine, to unpaid and accrued interest, to the discharge of any expenses or damages for which the Lender may be entitled to receive reimbursement under the terms of this Note or under the terms of any document executed in connection herewith, or to unpaid principal in the inverse order of maturity. Notwithstanding anything expressed or implied in this Note to the contrary, all past due principal and interest on this Note, whether due as the result of acceleration of maturity or otherwise, shall bear interest from the date the payment thereof shall have become due until the same have been fully discharged by payment at the Default Rate. In addition, Lender may charge and collect a late fee of five percent (5.0%) of any scheduled installment that is more than ten (10) days past due.

8. If an Event of Default shall occur and be continuing, then the holder of this Note shall have the option, in addition to the remedies provided in the other Loan Documents or at law or in equity, to declare this Note due and payable, whereupon the entire unpaid principal balance of this Note and all interest accrued thereon shall thereupon at once mature and become due and payable and shall bear interest from the date of such Event of Default until paid at the Default Rate, without grace, presentment for payment, demand, protest, notice of protest, notice of nonpayment, notice of intent to accelerate, notice of acceleration, or any other notice of any kind, **ALL OF WHICH ARE HEREBY EXPRESSLY WAIVED BY THE BORROWER**. The time of payment of this Note is also subject to acceleration in the event of the Event of Default.

9. This Note is secured by and is entitled to the benefit of, among other instruments: (a) the Pledge and Security Agreement, (b) the Control Account Agreement, and (c) the other Loan Documents.

10. Time is of the essence in the performance and payment of this Note.

11. The remedies of Lender as provided herein and in the Loan Documents shall be cumulative and concurrent and may be pursued singly, successively, or together, at the sole discretion of Lender, and may be exercised as often as occasion therefor shall arise. No action, omission, or commission by Lender, including specifically, the failure to exercise any right, remedy, or recourse, shall be deemed a waiver or release of the same. A waiver or release shall exist and be effective only as set forth in a written document executed by Lender, and then only to the extent specifically recited therein. A waiver or a release with reference to any one event shall not be construed as continuing, or as a bar to, or as a waiver or release of, any subsequent right, remedy, or recourse as to any subsequent event.

12. **THE BORROWER HEREBY EXPRESSLY WAIVES GRACE, AND ALL NOTICES, DEMANDS, PRESENTMENTS FOR PAYMENT, NOTICE OF NONPAYMENT, PROTEST AND NOTICE OF PROTEST, NOTICE OF INTENT TO ACCELERATE, NOTICE OF ACCELERATION OF THE INDEBTEDNESS DUE HEREUNDER, AND DILIGENCE IN COLLECTING THIS NOTE OR ENFORCING ANY SECURITY RIGHTS OF THE LENDER UNDER ANY DOCUMENT SECURING THIS NOTE.**

13. If an Event of Default occurs and is continuing and this Note is placed in the hands of an attorney for collection (whether or not suit is filed), or suit or legal proceedings are brought to collect this Note, the Borrower agrees to pay the holder hereof the costs and reasonable attorney's fees incurred in the collection hereof.

14. It is the intention of the parties hereto to comply with the Usury Laws; accordingly, it is agreed that notwithstanding any provisions to the contrary in this Note, the Loan Documents, in no event shall the Loan Documents require the payment or permit the collection of interest in excess of the maximum amount permitted by such laws, and any subsequent revisions, repeals, or judicial interpretations thereof to the extent that same are made applicable hereto. If any such excess of interest is contracted for, charged, or received under Loan Documents, or in the event the maturity of the indebtedness evidenced by this Note is accelerated in whole or in part, or in the event that all or part of the principal or interest of this Note shall be prepaid, so that under any of such circumstances the amount of interest contracted for, charged or received the Loan Documents, on the amount of principal actually outstanding from time to time under this Note shall exceed the maximum amount of interest permitted by the Usury Laws, then in any such event (a) the provisions of this paragraph shall govern and control, (b) neither Borrower nor any other person or entity now or hereafter liable for the payment of this Note shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by the Usury Laws, (c) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal amount of this Note or refunded to Borrower, at the holder's option, and (d) the effective rate of interest shall be automatically reduced to the maximum lawful contract rate allowed under the Usury Laws as now or hereafter construed by the courts having jurisdiction thereof. It is further agreed, without limiting the foregoing, that the rate of interest contracted for, charged or received under this Note and any other Loan Documents shall be deemed not to exceed the maximum lawful rate if any method of calculation permitted by the Usury Laws including, but not limited to, amortization, prorating, allocating and spreading interest over the full term of the loan results in a determination that the rate of interest so contracted for, charged or received does not exceed the maximum lawful rate.

15. Any check, draft, money order or other instrument given in payment of all or any portion hereof may be accepted by the holder hereof and handled in collection in the customary manner, but the same shall not constitute payment hereunder or diminish any rights of the holder hereof except to the extent that actual cash proceeds of such instrument are unconditionally received by the holder and applied to this indebtedness in the manner elsewhere herein provided.

16. It is further agreed that the Lender shall have a first lien on all deposits and other sums at any time credited by or due from the Lender to the Borrower as collateral security for the payment of this Note, and the Lender, at its option, may at any time, without notice and without any liability, hold all or any part of any such deposits or other sums until all sums owing on this Note have been paid in full and/or apply or set off all or any part of any such deposits or other sums credited by or due from the Lender to or against any sums due on this Note in any manner and in any order of preference which the Lender, in its sole discretion, chooses.

17. The loan evidenced by this Note was negotiated and consummated in the State of Texas and it is understood and agreed that the legality, enforceability and construction hereof shall be governed by Texas law and, to the extent applicable, by the laws of the United States of America. The Borrower and the Lender expressly agree, pursuant to Section 346.004 of the Texas Finance Code, that Chapter 346 shall not apply to this Note or to any advance evidenced by this Note and that this Note and all such advances shall not be governed by or subject to the provisions of Chapter 346 in any manner whatsoever.

18. The Lender reserves the right, exercisable in the Lender's sole discretion and without notice to the Borrower or any other person, to sell participations, to assign its interest or both, in all or any part of this Note or this debt or the debt evidenced hereby.

19. **THIS WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

Executed on the date of the acknowledgment to be effective as of the date first written above.

BORROWER:

EQUUS TOTAL RETURN, INC.,
formerly known as
EQUUS II INCORPORATED,
a Delaware corporation

By: _____

Harry O. Nicodemus, IV
Chief Financial Officer

Exhibit B

Form of Borrowing Notice

TO: Regions Bank
3272 Westheimer, Suite #1
Houston, Texas 77098
Attention: Terry A. Pruden

DATE: _____, 200__

Ladies and Gentlemen:

The undersigned is an officer of Equus Total Return, Inc., a Delaware corporation (the "Borrower"), and is authorized to make and deliver this certificate pursuant to that certain Loan Agreement dated as of August __, 2006, between the Borrower and Regions Bank (such Loan Agreement as the same may be amended, supplemented or modified from time to time, being hereinafter referred to as the "Agreement"). All terms defined in the Agreement or the Note shall have the same meaning herein.

In accordance with the Agreement, the Borrower hereby gives you notice irrevocably of the Advance request specified below:

I. ADVANCE:

Requested Amount: $_____ (not to exceed line (e) below)

Advance date:_____

Type of Advance (check):

_____ Prime Rate

_____ Libor Rate

Length of Interest Period for Libor Rate Advances (1, 2, 3 or 6 months or such longer period of 12 months or less with Lender's consent): _____months

Information

(a)	Outstanding principal amount of Advances prior to requested Advance	$_____
(b)	Eligible Portfolio Value	$_____
(c)	Borrowing Base (20% of line (b))	$_____
(d)	Borrowing Base minus line (a)	$_____
(e)	Net availability for Advances: [lesser of line (d) or line (c)]	$_____
(f)	Amount of Requested Advance	$_____

In connection with the foregoing and pursuant to the terms and provisions of the Agreement, the undersigned hereby certifies that the following statements are true and correct:

1) The representations and warranties contained in Section 4 of the Agreement and in each of the other Loan Documents are true and correct in all material respects on and as of the date hereof with the same force and effect as if made on and as of such date.

2) No material adverse change in the financial condition of Borrower since the effective date of the most recent financial statements furnished to Lender by Borrower shall have occurred and be continuing.

3) No event has occurred and is continuing or would result from the requested Advance, which with notice or lapse of time, or both, would constitute and Event of Default.

4) The amount of the requested Advance, when added to the sum of all outstanding Advances, will not exceed the lesser of (i) the Borrowing Base and (ii) $10,000,000.

5) If any Collateral consists of Margin Stock, the Borrower has delivered to Lender contemporaneously with this Borrowing Notice a Federal Reserve Form U-1 (or any successor form) permitting the requested Advance to be made in compliance with the Margin Regulations.

6) All information supplied above is true, correct, and complete as of the date hereof.

BORROWER:

EQUUS TOTAL RETURN, INC., a Delaware corporation

By: _____
Authorized Officer
Name:
Title:

Dated as of: _____

Exhibit C

Form of Conversion/Continuation Notice

Date: _____,_____

TO: Regions Bank
3272 Westheimer, Suite #1
Houston, Texas 77098
Attention: Terry A. Pruden

DATE: _____, 200__

Ladies and Gentlemen:

The undersigned is an officer of Equus Total Return, Inc., a Delaware corporation (the "Borrower"), and is authorized to make and deliver this certificate pursuant to that certain Loan Agreement dated as of August __, 2006, between the Borrower and Regions Bank (such Loan Agreement as the same may be amended, supplemented or modified from time to time, being hereinafter referred to as the "Agreement"). All terms defined in the Agreement or the Note shall have the same meaning herein.

The undersigned hereby requests:

I. CREDIT FACILITY

1. Amount of [conversion] [continuation]: $_____

   Existing rate:

2.

	Check applicable blank
(a) Prime Rate	_____
(b) Libor Rate Advance with Interest Period of:	
(i) one month	_____
(ii) two months	_____
(iii) three months	_____
(iv) six months	_____
(iv) up to 12 months	_____ (with Lender's consent)

   If a Libor Rate Advance, date of the last day of the Interest Period for such Loan: _____, 200_.

3. The Advance described above is to be [converted] [continued] as follows:

   Requested date of [conversion] [continuation]: _____, 200_.

4. Requested type of Advance and applicable dollar amount:

5.

(a) Prime Rate Loan for	$_____
(b) Libor Rate Advance with Interest Period of:	
(i) one month for	$_____
(ii) two months for	$_____
(iii) three months for	$_____
(iv) six months for	$_____
(iv) up to 12 months	$_____(with Lender's consent)

The [conversion] [continuation] requested herein complies with the Agreement and Note.

BORROWER:

EQUUS TOTAL RETURN, INC., a Delaware corporation

By: _____
Authorized Officer
Name:
Title:

EXHIBIT 31.1

Form of Annual Certification Required
by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, Kenneth I. Denos, certify that:

1. I have reviewed this Annual Report on Form 10-K of Equus Total Return, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a. Designed such disclosure controls and procedures. or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. [Reserved]

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 31, 2008

/s/ KENNETH I. DENOS
Kenneth I. Denos
Chief Executive Officer

EXHIBIT 31.2

Form of Annual Certification Required
by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, L'Sheryl D. Hudson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Equus Total Return, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
   a. Designed such disclosure controls and procedures. or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. [Reserved]
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 31, 2008

/s/ L'Sheryl D. Hudson
L'Sheryl D. Hudson
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of Equus Total Return, Inc. (the "Company") on Form 10-K for the period ended December 31, 2008 (the "Report"), I, Kenneth I. Denos, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) To my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2008

/s/ KENNETH I. DENOS
Kenneth I. Denos
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of EQUUS TOTAL RETURN, INC. (the "Company") on Form 10-K for the period ended December 31, 2008 (the "Report"), I, L'Sheryl D. Hudson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) To my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2008

/s/ L'SHERYL D. HUDSON
L'Sheryl D. Hudson
Chief Financial Officer