

EQUUS TOTAL RETURN, INC.
Form 10-Q
August 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period to

Commission File Number 814-00098

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0345915 (I.R.S. Employer Identification No.)
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700 Louisiana St., 48th Floor

Houston, Texas (Address of principal executive offices)	77002 (Zip Code)
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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company	Emerging Growth Company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 13,518,146 shares of the registrant's common stock, \$.001 par value, outstanding, as of August 14, 2017.

EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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EQUUS TOTAL RETURN, INC.

BALANCE SHEETS

(Unaudited)

Part I. Financial Information**Item 1. Financial Statements**

	June 30, 2017	December 31, 2016
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$10,050 and \$10,050 respectively)	\$6,463	\$6,462
Affiliate investments (cost at \$350 and \$350 respectively)	16,686	16,200
Non-affiliate investments - related party (cost at \$6,138 and \$6,011 respectively)	4,763	4,021
Non-affiliate investments (cost at \$965 and \$2,978 respectively)	965	2,978
Total investments in portfolio securities at fair value	28,877	29,661
Temporary cash investments	34,953	29,994
Cash and cash equivalents	13,143	11,961
Restricted cash	350	300
Accounts receivable - due from affiliates	586	611
Accrued interest receivable	343	542
Other assets	28	77
Total assets	78,280	73,146
Liabilities and net assets		
Accounts payable	1,139	269
Accounts payable to related parties	66	143
Borrowing under margin account	34,953	29,994
Total liabilities	36,158	30,406
Commitments and contingencies (see note 2)		
Net assets	\$42,122	\$42,740
Net assets consist of:		
Common stock, par value	\$13	\$13
Capital in excess of par value	55,305	54,213
Undistributed net investment losses	(24,570)	(21,758)
Unrealized appreciation of portfolio securities, net	12,749	12,262

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Unrealized depreciation of portfolio securities - related party	(1,375)	(1,990)
Total net assets	\$42,122	\$42,740
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	13,518	12,674
Shares of preferred stock issued and outstanding, \$.001 par value, 5,000 shares authorized	—	—
Net asset value per share	\$3.12	\$3.37

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Investment income:				
Interest and dividend income:				
Non-affiliate investments - related party	\$64	\$60	\$127	\$60.00
Non-affiliate investments	71	164	195	300
Total interest and dividend income	135	224	322	360
Interest from temporary cash investments	2	3	5	5
Total investment income	137	227	327	365
Expenses:				
Transaction costs	1,422	—	2,705	—
Compensation expense	926	262	1,607	534
Professional fees	220	149	663	517
Director fees and expenses	259	145	407	265
General and administrative expense	94	78	182	162
Mailing, printing and other expenses	35	43	60	69
Taxes	9	—	9	—
Interest expense	4	2	6	3
Total expenses	2,969	679	5,639	1,550
Merger termination fee (see note 6)	(2,500)	—	(2,500)	—
Total net expenses	469	679	3,139	1,550
Net investment income (loss)	(332)	(452)	(2,812)	(1,185)
Net realized loss:				
Temporary cash investments	(1)	(1)	(4)	(3)
Net realized loss	(1)	(1)	(4)	(3)
Net unrealized appreciation of portfolio securities:				
End of period	12,749	8,113	12,749	8,113
Beginning of period	12,749	5,915	12,262	4,915
Net change in net unrealized appreciation of portfolio securities	—	2,198	487	3,198
Net unrealized depreciation of portfolio securities - related party:				
End of period	(1,375)	(2,240)	(1,375)	(2,240)
Beginning of period	(1,795)	(2,562)	(1,990)	(2,539)
Net change in net unrealized depreciation of portfolio securities - related party	420	322	615	299

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Net increase (decrease) in net assets resulting from operations	\$87	\$2,067	\$(1,714)	\$2,309
Net (decrease) increase in net assets resulting from operations per share:				
Basic and diluted	\$0.01	\$0.17	\$(0.13)	\$0.19
Weighted average shares outstanding:				
Basic and diluted	13,518	12,674	13,168	12,674

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(in thousands)	Common Stock						Total Net Asset Value
	Number of Shares	Par Value	Capital in Excess of Par Value	Undistributed Net Investment Losses	Unrealized Appreciation of Portfolio Securities, net	Unrealized Depreciation of Portfolio Securities - Related Party	
Balances at December 31, 2016	12,674	\$ 13	\$54,213	\$ (21,758)	\$ 12,262	\$ (1,990)	\$42,740
Share-based incentive compensation	844	—	1,096	—	—	—	1,096
Net (decrease) increase in net assets resulting from operations	—	—	(4)	(2,812)	487	615	(1,714)
Balances at June 30, 2017	13,518	\$ 13	\$55,305	\$ (24,570)	\$ 12,749	\$ (1,375)	\$42,122

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

EQUUS TOTAL RETURN, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2017	2016
Reconciliation of (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Net (decrease) increase in net assets resulting from operations	\$(1,714)	\$2,309
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Net realized loss	4	3
Net change in unrealized appreciation of portfolio securities	(487)	(3,198)
Net change in unrealized depreciation of portfolio securities - related party	(615)	(299)
Share-based incentive compensation	1,096	—
Changes in operating assets and liabilities:		
Purchase of portfolio securities	—	(2,000)
Net proceeds from dispositions of portfolio securities	2,013	—
Purchases of temporary cash investments, net	(4,963)	(13,119)
Decrease in accounts receivable from investments	25	3
Decrease (increase) in accrued interest receivable	72	(235)
Increase in accrued dividend receivable	—	(60)
Decrease (increase) in accounts receivable and other	49	(74)
Increase in accounts payable and accrued liabilities	870	11
Decrease in accounts payable to related parties	(77)	(113)
Net cash used in operating activities	(3,727)	(16,772)
Cash flows from financing activities:		
Borrowings under margin account	69,952	42,985
Repayments under margin account	(64,993)	(29,999)
Net cash provided by financing activities	4,959	12,986
Net increase (decrease) in cash and cash equivalents	1,232	(3,786)
Cash and cash equivalents at beginning of period	12,261	17,036
Cash and cash equivalents at end of period	\$13,493	\$13,250
Non-cash operating and financing activities:		
Accrued interest or dividends exchanged for portfolio securities	\$—	\$63
Accrued interest or dividends exchanged for portfolio securities - related party	\$127	\$190
Supplemental disclosure of cash flow information:		
Interest paid	\$6	\$3
Income taxes paid	\$16	\$11

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

EQUUS TOTAL RETURN, INC.

SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Investment income	\$0.03	\$0.03
Expenses	0.24	0.12
Net investment loss	(0.21)	(0.09)
Net change in unrealized appreciation	0.04	0.25
Net change in unrealized depreciation - related party	0.04	0.03
Net (decrease) increase in net assets	(0.13)	0.19
Capital transactions:		
Share-based incentive compensation	0.08	—
Dilutive effect of shares issued	(0.20)	—
Decrease in net assets resulting from capital transactions	(0.12)	—
Net (decrease) increase in net assets	(0.25)	0.19
Net assets at beginning of period	3.37	2.94
Net assets at end of period, basic and diluted	\$3.12	\$3.13
Weighted average number of shares outstanding during period, in thousands	13,168	12,674
Market price per share:		
Beginning of period	\$2.01	\$1.79
End of period	\$2.36	\$1.78
Selected information and ratios:		
Ratio of expenses to average net assets	13.29 %	4.03 %
Ratio of net investment loss to average net assets	(6.63 %)	(3.08 %)
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	(4.04 %)	6.00 %
Total return on market price ⁽¹⁾	17.41 %	(0.56 %)

⁽¹⁾ Total return = [(ending market price per share - beginning price per share) / beginning market price per share].

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

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EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

JUNE 30, 2017

(Unaudited)

(in thousands, except share data)

Name and Location of Portfolio Company Control	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value ⁽¹⁾
Investments: Majority-owned ⁽³⁾ :						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)	\$	7,050	6,250
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	213
Total Control Investments: Majority-owned (represents 10.1% of total investments at fair value)					\$ 10,050	\$ 6,463
Affiliate Investments ⁽⁴⁾ :						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.7%)	\$	350	\$ 16,686
Total Affiliate Investments (represents 26.1% of total investments at fair value)					\$ 350	\$ 16,686
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	May 2014	483,090 shares of common stock (1.7%)	\$	6,138	\$ 4,763
Total Non-Affiliate Investments - Related Party (represents 7.5% of total investments at fair value)					\$ 6,138	\$ 4,763
Non-Affiliate Investments (less than 5% owned):						
5 TH Element Tracking, LLC Boston, MA	Business products and services	January 2015	14% promissory note due 3/18 ⁽²⁾	\$	965	965
Total Non-Affiliate Investments (represents 1.5% of total investments at fair value)					\$ 965	\$ 965
Total Investment in Portfolio Securities					\$ 17,503	\$ 28,877
Temporary Cash Investments						
U.S. Treasury Bill	Government	June 2017	UST 0% 8/17	\$35,000	35,000	34,953
					\$ 35,000	\$ 34,953

Total Temporary Cash Investments (represents 54.8% of total investments at fair value)

Total Investments **\$ 52,503** \$ 63,830

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

(2) Income-producing.

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

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

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

EQUUS TOTAL RETURN, INC.**SCHEDULE OF INVESTMENTS – (Continued)****JUNE 30, 2017****(Unaudited)**

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

As a business development company (“BDC”) regulated pursuant to the Investment Company Act of 1940 (“1940 Act”), we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of June 30, 2017, we had invested 83.5% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of June 30, 2017, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 22.4% of the total value of the investments in portfolio securities as of June 30, 2017.

Our investments in portfolio securities consist of the following types of securities as of June 30, 2017 (in thousands):

Type of Securities	Cost	Fair Value	Percentage of	Fair Value as
			Net Assets	
Common stock	\$6,488	\$21,449	50.9	%
Limited liability company investments	10,050	6,463	15.3	%
Secured and subordinated debt	965	965	2.4	%
Total	\$17,503	\$28,877	68.6	%

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The following is a summary by industry of the Fund's investments in portfolio securities as of June 30, 2017 (in thousands):

Industry	Fair Value	Fair Value as Percentage of
		<u>Net</u> <u>Assets</u>
Shipping products and services	\$16,686	39.7 %
Energy	6,250	14.8 %
Financial services	4,763	11.3 %
Business products and services	965	2.3 %
Media	213	0.5 %
Total	\$28,877	68.6 %

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

EQUUS TOTAL RETURN, INC.

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2016

(Unaudited)

(in thousands, except share data)

Name and Location of Portfolio Company Control	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value ⁽¹⁾
Investments: Majority-owned (3):						
Equus Energy, LLC Houston, TX	Energy	December 2011	Member interest (100%)		\$ 7,050	\$ 6,250
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		3,000	212
Total Control Investments: Majority-owned (represents 10.8% of total investments at fair value)					\$ 10,050	\$ 6,462
Affiliate Investments (4):						
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (18.7%)		\$ 350	\$ 16,200
Total Affiliate Investments (represents 27.2% of total investments at fair value)					\$ 350	\$ 16,200
Non-Affiliate Investments - Related Party (less than 5% owned):						
MVC Capital, Inc. Purchase, NY	Financial services	May 2014	468,608 shares of common stock (1.7%)		\$ 6,011	\$ 4,021
Total Non-Affiliate Investments - Related Party (represents 6.7% of total investments at fair value)					\$ 6,011	\$ 4,021
Non-Affiliate Investments (less than 5% owned):						
5 TH Element Tracking, LLC Boston, MA	Business products and services	January 2015	14% promissory note due 3/17 ⁽²⁾	\$ 965	965	965
Biogenic Reagents, LLC Minneapolis, MN	Industrial products	January 2016	16% promissory note due 6/16 ⁽⁵⁾⁽⁶⁾	\$ 2,013	2,013	2,013
Total Non-Affiliate Investments (represents 5.0% of total investments at fair value)					\$ 2,978	\$ 2,978
					\$ 19,389	\$ 29,661

**Total Investment in Portfolio
Securities
Temporary Cash Investments**

U.S. Treasury Bill	Government	December 2016	UST 0% 1/17	\$ 30,000	30,000	29,994
Total Temporary Cash Investments (represents 50.3% of total investments at fair value)					\$ 30,000	\$ 29,994
Total Investments					\$ 49,389	\$ 59,655

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

(2) Income-producing.

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

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

(5) Income impaired.

(6) 12% cash interest and 4% PIK interest at the combined rate of 16% per annum

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

EQUUS TOTAL RETURN, INC.**SCHEDULE OF INVESTMENTS – (Continued)****DECEMBER 31, 2016****(Unaudited)**

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

As a BDC, we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of December 31, 2016, we had invested 86.4% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2016, except for our shares of MVC, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to portfolio companies that comprise 31.8% of the total value of the investments in portfolio securities as of December 31, 2016.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2016 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as	
			Percentage of	Net Assets
Common stock	\$6,361	\$20,221	47.3	%
Limited liability company investments	10,050	6,462	15.1	%
Secured and subordinated debt	2,978	2,978	7.0	%
Total	\$19,389	\$29,661	69.4	%

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The following is a summary by industry of the Fund's investments in portfolio securities as of December 31, 2016 (in thousands):

Industry	Fair Value	Fair Value as Percentage of	
		Net Assets	
Shipping products and services	\$16,200	37.9	%
Energy	6,250	14.6	%
Financial services	4,021	9.4	%
Industrial products	2,013	4.7	%
Business products and services	965	2.3	%
Media	212	0.5	%
Total	\$29,661	69.4	%

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

EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017