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

FORM 10-Q

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

For the quarterly period ended June 30, 2024

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	**76-0345915**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
700 Louisiana St., 48th Floor **Houston, Texas**	**77002**
(Address of principal executive offices)	**(Zip Code)**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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**

☐ 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 every Interactive Data File required to be submitted 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 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 ☐

☐ 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 13,586,173 shares of the registrant's common stock, $.001 par value, outstanding, as of June 30, 2024.

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(A Delaware Corporation)
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EQUUS TOTAL RETURN, INC.
CONDENSED BALANCE SHEETS
(Unaudited)

Part I. Financial Information
Item 1. Unaudited Condensed Financial Statements

	June 30, 2024	December 31, 2023
(in thousands, except shares and per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at $18,611 and $16,364, respectively)	$ 46,500	$ 40,853
Total investments in portfolio securities at fair value	46,500	40,853
U.S. Treasury bills	53,944	44,955
Cash and cash equivalents	1,878	6,533
Restricted cash	539	450
Accounts receivable from affiliates	139	139
Accrued interest	826	225
Other assets	18	392
Total assets	103,844	93,547
Liabilities and net assets		
Accounts payable	106	172
Accrued compensation	2	29
Accounts payable to related parties	—	104
Borrowing under margin account	53,944	44,955
Total liabilities	54,052	45,260
Commitments and contingencies (See Note 2)		
Net assets		
Common stock, $.001 par value per share; 100,000,000 shares authorized as of June 30, 2024 and December 31, 2023, respectively, and 13,586,173 shares outstanding as of June 30, 2024 and December 31, 2023, respectively		
Preferred stock, $.001 par value per share; 10,000,000 shares authorized as of June 30, 2024 and December 31, 2023 respectively		
Common stock, par value	$ 14	$ 14
Capital in excess of par value	74,785	74,785
Accumulated deficit	(25,007)	(26,512)
Total net assets	$ 49,792	$ 48,287
Shares of common stock issued and outstanding, $.001 par value, 100,000 and 50,000 shares authorized, respectively	13,586	13,586
Net asset value per share	$ 3.66	$ 3.55

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

EQUUS TOTAL RETURN, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	**2024**	**2023**	**2024**	**2023**
Investment income:				
Interest income:				
Control investments	$ 319	$ 8	$ 602	$ 8
Total interest income	319	8	602	8
Interest from U.S. Treasury bills	12	4	12	10
Total investment income	331	12	614	18

Expenses:				
Professional fees	367	126	934	526
Compensation expense	477	393	905	810
Professional liability expenses	148	181	298	365
Director fees and expenses	95	103	179	183
Mailing, printing and other expenses	16	30	81	52
General and administrative expenses	63	35	96	70
Taxes	11	7	25	7
Interest expense	34	1	66	2
Total expenses	1,211	876	2,584	2,015
Net investment loss	(880)	(864)	(1,970)	(1,997)
Net realized gain:				
U.S. Treasury bills	30	9	75	11
Net realized gain	30	9	75	11
Net unrealized appreciation of portfolio securities:				
Control investments	4,750	6,800	3,400	6,800
Net change in net unrealized appreciation of portfolio securities	4,750	6,800	3,400	6,800
Net increase in net assets resulting from operations	$ 3,900	$ 5,945	$ 1,505	$ 4,814
Net increase in net assets resulting from operations per share:				
Basic and diluted	$ 0.29	$ 0.44	$ 0.11	$ 0.36
Weighted average shares outstanding:				
Basic and diluted	13,586	13,518	13,586	13,518

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

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EQUUS TOTAL RETURN, INC.
CONDENSED STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

(in thousands)	**Common Stock** Number of Shares	Par Value	Capital in Excess of Par Value	**Accumulated Deficit**	**Total Net Assets**
Balances as of January 1, 2023	13,518	$ 13	$ 74,685	$ (39,461)	$ 35,237
Net decrease in net assets resulting from operations	—	—	—	(1,131)	(1,131)
Balances as of March 31, 2023	13,518	$ 13	$ 74,685	$ (40,592)	$ 34,106
Net increase in net assets resulting from operations	—	—	—	5,945	5,945
Balances as of June 30, 2023	13,518	$ 13	$ 74,685	$ (34,647)	$ 40,051
Balances as of January 1, 2024	13,586	$ 14	$ 74,785	$ (26,512)	$ 48,287
Net decrease in net assets resulting from operations	—	—	—	(2,395)	(2,395)
Balances as of March 31, 2024	13,586	$ 14	$ 74,785	$ (28,907)	$ 45,892
Net increase in net assets resulting from operations	—	—	—	3,900	3,900
Balances as of June 30, 2024	13,586	$ 14	$ 74,785	$ (25,007)	$ 49,792

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

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EQUUS TOTAL RETURN, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	**Six months ended June 30, 2024**	**2023**
Reconciliation of increase in net assets resulting from operations to net cash (used in) operating activities:		
Net increase in net assets resulting from operations	$ 1,505	$ 4,814
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) operating activities:		
Net realized (gain):		
U.S. Treasury bills	(75)	(11)
Net change in unrealized appreciation of portfolio securities:		
Control investments	(3,400)	(6,800)
Purchase of portfolio securities	(2,247)	(750)
Purchases of U.S. Treasury bills, net	(8,914)	(6,980)
Changes in operating assets and liabilities:		
Accounts receivable from affiliates	—	22
Accrued interest receivable	(601)	(8)
Other assets	374	347
Accounts payable and accrued liabilities	(93)	(372)
Accounts payable to related parties	(104)	—
Net cash (used in) operating activities	(13,555)	(9,738)
Cash flows from financing activities:		
Borrowings under margin account	106,914	22,980
Repayments under margin account	(97,925)	(15,989)
Net cash provided by financing activities	8,989	6,991
Net decrease in cash and cash equivalents	(4,566)	(2,747)
Cash and cash equivalents and restricted cash at beginning of period	6,983	19,284
Cash and cash equivalents and restricted cash at end of period	$ 2,417	$ 16,537
Supplemental disclosure of cash flow information:		
Interest paid	$ 66	$ 2
Income taxes paid	$ 25	$ 7

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

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EQUUS TOTAL RETURN, INC.
SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS
(Unaudited)

	Six months ended June, 2024	**2023**
Investment income	$ 0.05	$ —
Expenses	(0.20)	(0.15)
Net investment loss	(0.15)	(0.15)
Net change in unrealized appreciation of portfolio securities	0.26	0.50
Net increase in net assets	0.11	0.35
Net assets at beginning of period	3.55	2.61
Net assets at end of period, basic and diluted	$ 3.66	$ 2.96
Weighted average number of shares outstanding during period, in thousands	13,586	13,518
Market price per share:		
Beginning of period	$ 1.45	$ 1.43
End of period	$ 1.32	$ 1.52
Selected information and ratios:		
Ratio of expenses to average net assets	(5.27%)	(5.35%)
Ratio of net investment loss to average net assets	(4.02%)	(5.30%)
Ratio of net increase in net assets resulting from operations to average net assets	3.07%	12.79%
Return on net asset value	3.12%	(3.45%)
Total return on market price [1]	(8.97%)	6.29%

[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, 2024
(Unaudited)
(in thousands, except share data)

Name and Location of Portfolio Company [(1)]	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value[(2)]
Control Investments: Majority-owned [(3)]:						
Equus Energy, LLC [(4)] Houston, TX	Energy	December 2011	Member interest (100%)		$ 8,111	$ 10,000
Morgan E&P, LLC [(4)] Houston, TX	Energy	April 2023	Member interest (100%)		—	26,000
			12% senior secured promissory note due 5/26 [(5)]	$ 10,500	10,500	10,500
					10,500	36,500
Total Control Investments: Majority-owned (represents 46.3% of total investments at fair value)					**18,611**	**46,500**
U.S Treasury Bills						
U.S. Treasury Bills	Government	July 2024	UST 0% 7/24	53,944	53,944	53,944
Total U.S. Treasury Bills (represents 53.7% of total investments at fair value)					**53,944**	**53,944**
Total Investments					**$ 72,555**	**$ 100,444**

[(1)]Under Section 55(a) of the 1940 Act, qualifying assets must represent at least 70% of the total assets at the time of acquisitions of any non-qualifying. As of June 30, 2024 none of the Fund's total assets were considered non-qualifying assets.
[(2)]See Note 3 to the financial statements, Valuation of Investments.
[(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 such company.
[(4)]Level 3 Portfolio Investment.
[(5)]Income producing.

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS – (Continued)
June 30, 2024
(Unaudited)

Our portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933 (hereafter, the "Securities Act"). We typically 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"), we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the Investment Company Act of 1940 (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, 2024, we had invested 44.8% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of June 30, 2024, none of our investments are considered non-qualifying assets, inasmuch as all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to our portfolio companies that comprise 100% of the total value of the investments in portfolio securities as of June 30, 2024.

We are classified as a "non-diversified" investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. The value of one segment called "Energy" includes our two remaining portfolio companies and was 93.4% of our net asset value, 44.8% of our total assets and 100% of our investments in portfolio company securities (at fair value) as of June 30, 2024. Changes in business or industry trends or in the financial condition, results of operations, or the market's assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a "diversified" company holding numerous investments.

Our investments in portfolio securities consist of the following types of securities as of June 30, 2024 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Limited liability company investments	$ 8,111	$ 36,000	72.3%
Secured and subordinated debt	10,500	10,500	21.1%
Total	$ 18,611	$ 46,500	93.4%

The following is a summary by industry of the Fund's investments in portfolio securities as of June 30, 2024

Industry	Fair Value	Fair Value as Percentage of Net Assets
Energy	$ 46,500	93.4%
Total	$ 46,500	93.4%

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2023
(Unaudited)
(in thousands, except share data)

Name and Location of Portfolio Company [1]	Industry	Date of Initial Investment	Investment	Principal		Cost of Investment		Fair Value[2]
Control Investments: Majority-owned [3]:								
Equus Energy, LLC [4] Houston, TX	Energy	December 2011	Member interest (100%)		$	8,111	$	10,000
Morgan E&P, LLC [4] Houston, TX	Energy	April 2023	Member interest (100%)			—		22,600
			12% senior secured promissory note due 5/26 [5]	$	8,253	8,253		8,253
						8,253		30,853
Total Control Investments: Majority-owned (represents 47.6% of total investments at fair value)						**16,364**		**40,853**
U.S. Treasury Bills								
U.S. Treasury Bill	Government	December 2023	UST 0% 1/24		44,955	44,955		44,955
Total U.S. Treasury bills (represents 52.4% of total investments at fair value)						**44,955**		**44,955**
Total Investments					**$**	**61,319**	**$**	**85,808**

(1)Under Section 55(a) of the 1940 Act, qualifying assets must represent at least 70% of the total assets at the time of acquisitions of any non-qualifying. As of December 31, 2023 none of the Fund's total assets were considered non-qualifying assets.

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

(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 such company.

(4)Level 3 Portfolio Investment.

(5)Income producing.

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

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EQUUS TOTAL RETURN, INC.
SCHEDULE OF INVESTMENTS – (Continued)
DECEMBER 31, 2023
(in thousands, except share data)

Our portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933 (hereafter, the "Securities Act"). We typically 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"), we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the Investment Company Act of 1940 (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, 2023, we had invested 43.7% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2023, none of our investments are considered non-qualifying assets, inasmuch as all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to our portfolio companies that comprise 100% of the total value of the investments in portfolio securities as of December 31, 2023.

We are classified as a "non-diversified" investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. The value of one segment called "Energy" includes our two remaining portfolio companies and was 84.6% of our net asset value, 43.7% of our total assets and 100% of our investments in portfolio company securities (at fair value) as of December 31, 2023. Changes in business or industry trends or in the financial condition, results of operations, or the market's assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a "diversified" company holding numerous investments.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2023 (in thousands):

Type of Securities		Cost		Fair Value	Fair Value as Percentage of Net Assets
Limited liability company investments	$	8,111	$	32,600	67.5%
Secured and subordinated debt		8,253		8,253	17.1%

Total	$ 16,364	$ 40,853	84.6%

The following is a summary by industry of the Fund's investments in portfolio securities as of December 31, 2023 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Energy	$ 40,853	84.6%
Total	$ 40,853	84.6%

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

EQUUS TOTAL RETURN, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
June 30, 2024
(Unaudited)

(1) Description of Business and Basis of Presentation

Description of Business—Equus Total Return, Inc. ("we," "us," "our," "Equus" the "Company" and the "Fund"), a Delaware corporation, was formed by Equus Investments II, L.P. (the "Partnership") on August 16, 1991. On July 1, 1992, the Partnership was reorganized and all of the assets and liabilities of the Partnership were transferred to the Fund in exchange for shares of common stock of the Fund. Our shares trade on the New York Stock Exchange ("NYSE") under the symbol 'EQS'. On August 11, 2006, our shareholders approved the change of the Fund's investment strategy to a total return investment objective. This strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc. As of June 30, 2024, we had 100,000,000 shares of common stock and 10,000,000 shares of preferred stock authorized for issuance, of which 13,568,173 shares of common stock and no shares of preferred stock were outstanding.

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

We elected to be treated as a BDC under the Investment Company Act of 1940 Act ("1940 Act"), although our shareholders authorized us to withdraw this election in previous years (which authorization has since expired) and will likely do so again in the future. We currently qualify as a regulated investment company ("RIC") for federal income tax purposes and, therefore, are not required to pay corporate income taxes on any income or gains that we distribute to our stockholders. We have two wholly-owned taxable subsidiaries ("Taxable Subsidiary") which hold one or more of our portfolio investments listed on our Schedules of Investments. The purpose of these and other Taxable Subsidiaries we may form is to permit us to hold certain income- producing investments or portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross revenue for income tax purposes must consist of investment income. Absent the Taxable Subsidiaries, a portion of the gross income of these income-producing investments or of any LLC (or other pass-through entity) portfolio investment, as the case may be, would flow through directly to us for the 90% test. To the extent that such income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and, therefore, cause us to incur significant federal income taxes. The income of the LLCs (or other pass-through entities) owned by Taxable Subsidiaries is taxed to the Taxable Subsidiaries and does not flow through to us, thereby helping us preserve our RIC status and resultant tax advantages. We do not consolidate the Taxable Subsidiaries for income tax purposes, with the exception of Texas Margins Tax, which is an entity level tax. The Taxable Subsidiaries may generate income tax expense because of the Taxable Subsidiaries' ownership of the portfolio companies. We reflect any such income tax expense on our Statements of Operations.

Impact of Economic and Geopolitical Events on the Oil and Gas Sector— Beginning in the second quarter of 2022, crude prices began a steady decline following increases that were largely due to increased post-Covid demand and the buildup and subsequent invasion of Ukraine by Russian forces. Prices began to rise again in the third quarter of 2023, retreated during the fourth quarter of 2023, and have increased significantly since the beginning of 2024 and stood at $82.83 as of June 30, 2024. Natural gas prices experienced high volatility in 2022 before collapsing in 2023 and have thereafter remained generally stable, finishing the second quarter of 2024 at $2.42 per MMBTU. Recent oil price stability has been a significant factor in increased consolidation activity in the Permian Basin where Equus Energy holds most of its development rights, as well as in the Williston Basin region in North Dakota where Morgan E&P, LLC holds its development rights.

Basis of Presentation—In accordance with Article 6 of Regulation S-X under the Securities Act and the Securities Exchange Act of 1934, as amended ("Exchange Act"), we do not consolidate portfolio company investments, including those in which we have a controlling interest. Our interim unaudited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), for interim financial information and in accordance with the requirements of reporting on Form 10-Q and Article 10 of Regulation S-X, under the Exchange Act. Accordingly, they are unaudited and exclude some disclosures required for annual financial statements. We believe that we have made all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of these interim financial statements.

The results of operations for the three and six months ended June 30, 2024 are not necessarily indicative of results that ultimately may be achieved for the remainder of the year. The interim unaudited financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as filed with the SEC.

(2) Liquidity and Financing Arrangements; Going Concern

Liquidity—There are several factors that may materially affect our liquidity during the reasonably foreseeable future. We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We have followed valuation techniques in a consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities.

Cash and Cash Equivalents—As of June 30, 2024, we had cash and cash equivalents of $1.9 million. We had $46.5 million of our net assets of $49.8 million invested in portfolio securities.

As of December 31, 2023, we had cash and cash equivalents of $6.5 million. We had $40.9 million of our net assets of $48.3 million invested in portfolio securities.

We exclude “Restricted Cash and U.S. Treasury Bills” used for purposes of complying with RIC requirements from cash equivalents.

Restricted Cash and U.S. Treasury Bills—As of June 30, 2024, we had $54.5 million of restricted cash and U.S. Treasury Bills, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, $54.0 million was invested in U.S. Treasury Bills and $0.5 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 in July 2024, and we subsequently repaid this margin loan, plus interest.

As of December 31, 2023, we had $45.4 million of restricted cash and of U.S. Treasury Bills, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, $45.0 million was invested in U.S. Treasury Bills and $0.4 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury Bills matured January 4, 2024 and we subsequently repaid this margin loan, plus interest.

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

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Investment Commitments—Under certain circumstances, we may be called on to make follow-on investments in certain portfolio companies. If we do not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, our equity interest in the estimated fair value of the portfolio company could be reduced. We had no follow-on commitments as of June 30, 2024.

RIC Borrowings, Restricted Cash and U.S. Treasury Bills—We may periodically borrow sufficient funds to maintain the Fund’s RIC status by utilizing a margin account with a securities brokerage firm. We cannot assure you that any such arrangement will be available in the future. If we are unable to borrow funds to make qualifying investments, we may no longer qualify as a RIC. We would then be subject to corporate income tax on the Fund’s net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. If we remain a BDC and do not become an operating company as described in Note 6 – *Conversion to an Operating Company* below, our failure to continue to qualify as a RIC could be materially adverse to us and our stockholders.

As of June 30, 2024, we borrowed $54.0 million to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and investments in U.S. Treasury Bills of $54.5 million.

As of December 31, 2023, we borrowed $45.0 million to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and investments in U.S. Treasury Bills of $45.4 million.

Asset Coverage Ratio—Under the 1940 Act, BDCs are required to have an asset coverage ratio of 200%, meaning that the maximum debt that may be incurred by a BDC is the BDC’s net asset value. Pursuant to amendments made to the 1940 Act in March 2018, BDCs may now, with stockholder or board of directors approval, reduce this ratio to 150%, meaning that the maximum debt that may be incurred by a BDC is two times the BDC’s net asset value. In November 2019, we obtained approval of our shareholders to reduce our asset coverage ratio to 150%. This authorization permits Equus to borrow up to twice the value of the Fund’s net assets. Other than the margin loan obtained by the Fund from time to time to acquire U.S. Treasury bills to maintain our RIC status as described above, we have not yet undertaken any other additional borrowings.

Certain Risks and Uncertainties and Going Concern—Market and economic volatility which has become endemic in the past few years, together with the economic dislocation caused by the onset of the coronavirus, has constrained the availability of debt financing for small and medium-sized companies such as Equus and its portfolio companies. Such debt financing generally has shorter maturities, higher interest rates and fees, and more restrictive terms than debt facilities available in the past. In addition, during these years and continuing into the third quarter of 2024, the price of our common stock remained well below our net asset value, thereby making it undesirable to issue additional shares of our common stock below net asset value.

Because of these challenges, our near-term strategies shifted from originating debt and equity investments to preserving liquidity necessary to meet our operational needs. Key initiatives that we have previously undertaken to provide necessary liquidity include monetizations, the suspension of dividends and the internalization of management. We are also evaluating potential opportunities that could enable us to effect a change to our business and become an operating company as described in Note 6 – *Conversion to an Operating Company*.

The accompanying unaudited condensed financial statements of the Fund have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and other commitments in the normal course of business.

Our cash and cash equivalents totaled $1.9 million as of June 30, 2024 and our net cash flows used in operating net of financing activities used to purchase the U.S. Treasury Bills for the six-months ended June 30, 2024, were ($4.7 million), which included our follow-on investment in Morgan E&P of $2.2 million made in January and February 2024. We do not currently have the necessary cash on hand and/or projected future cash flows to fund our operating activities. It is possible the Fund will require loans, capital investment from one or more sources, or will be required to dispose of certain of its investments, to cover a potential cash shortfall. The Fund does not presently have any existing commitments to fund any such shortfall, should it occur, and cannot guarantee that it will be able to execute on such plans in the future. Because we do not currently have committed financing to fund our operations for at least twelve months from the issuance of these unaudited condensed consolidated financial statements, substantial doubt exists about our ability to continue as a going concern.

The unaudited condensed financial statements do not include adjustments relating to the recoverability and classification of assets and their carrying amount, or the amount and classification of liabilities that may result should the Fund be unable to continue as a going concern.

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(3) Significant Accounting Policies

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

Earnings Per Share—Basic earnings per share is computed by dividingnet increase (decrease) in net assets resulting from operationsby the weighted-average number of shares of common stock outstanding for the period. Other potentially dilutive common stock, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

Use of Estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although we believe the estimates and assumptions used in preparing these financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates. We have identified valuation of investments and revenue recognition as our most critical accounting estimates.

Consolidation—In accordance with Article 6 of Regulation S-X under the Securities Act of 1933, we do not consolidate portfolio company investments. Under Accounting Standards Committee ("ASC") 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

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

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

2. With certain exceptions as determined by our Management, with respect to investments with a fair value exceeding $2.5 million that have been held for more than one year, we engage independent valuation firms to assist our investment professionals. These independent valuation firms conduct independent valuations and make their own independent assessments;

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

4. The Audit Committee of our Board reviews and discusses the preliminary valuation of our portfolio investments as recommended by Management in their report and any reports or recommendations of the independent valuation firms, and then approves and recommends the fair values of our investments so determined to our Board for final approval; and

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

During the first twelve months after an investment is made, we rely on the original investment amount to determine the fair value unless significant developments have occurred during this twelve-month period which would indicate a material effect on the portfolio company (such as results of operations or changes in general market conditions).

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

In estimating the fair values of our equity interest in Equus Energy, we have given more emphasis to a market approach that examines developed and undeveloped reserves and mineral acreage values, as well as a market approach that examines comparable industry transactions involving oil and gas assets in proximity to the leasehold interests held by Equus Energy. In estimating the fair values of our equity interest in Morgan, we have given more emphasis to a market approach that examines Morgan's reserves and production multiples, as well as an income approach that examines expected cash flows from the development of leasehold interests held by Morgan. Our management received advice and assistance from a third-party valuation firm to support our determination of the fair value of these investments.

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

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

We record unrealized depreciation on investments when we determine that the fair value of a security is less than its cost basis and will record unrealized appreciation when we determine that the fair value is greater than its cost basis.

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

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

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

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

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

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

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

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

We assess the levels of the investments at each measurement date, and transfers between levels are recognized on the subsequent measurement date closest in time to the actual date of the event or change in circumstances that caused the transfer. There were no transfers to or from Level 3 for the three months ended June 30, 2024 and the year ended December 31, 2023.

As of June 30, 2024, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

		Fair Value Measurements as of June 30, 2024		
(in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments:				
Control investments	$ 46,500	$ —	$ —	$ 46,500
Total investments	46,500	—	—	46,500
U.S. Treasury bills	53,944	53,944	—	—
Total investments and U.S. Treasury bills	$ 100,444	$ 53,944	$ —	$ 46,500

As of December 31, 2023, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

		Fair Value Measurements as of December 31, 2023		
(in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments:				
Control investments	$ 40,853	$ —	$ —	$ 40,853

Total investments	40,853	—	—	40,853
U.S. Treasury bills	44,955	44,955	—	—
Total investments and U.S. Treasury bills	$ 85,808	$ 44,955	$ —	$ 40,853

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The following table provides a reconciliation of fair value changes during the three and six months ended June 30, 2024 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using significant unobservable inputs (Level 3)			
(in thousands)	**Control Investments**	**Affiliate Investments**	**Non-affiliate Investments**	**Total**
Fair value as of January 1, 2024	$ 40,853	$ —	$ —	$40,853
Purchases of portfolio securities	2,247	—	—	2,247
Change in unrealized appreciation	(1,350)	—	—	(1,350)
Fair value as of March 31, 2024	41,750	—	—	41,750
Change in unrealized appreciation	4,750	—	—	4,750
Fair value as of June 30, 2024	$ 46,500	$ —	$ —	$46,500

The following table provides a reconciliation of fair value changes during the three and six months ended June 30, 2023 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using significant unobservable inputs (Level 3)			
(in thousands)	**Control Investments**	**Affiliate Investments**	**Non-affiliate Investments**	**Total**
Fair value as of January 1, 2023	$ 15,650	$ —	$ —	$15,650
Change in unrealized appreciation	—	—	—	-
Fair value as of March 31, 2023	15,650	—	—	15,650
Change in unrealized appreciation	6,800	—	—	6,800
Purchases of portfolio securities	750	—	—	750
Fair value as of June 30, 2023	$ 23,200	$ —	$ —	$23,200

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in discount rates, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in isolation, may change the fair value of certain of our investments. Generally, an increase/(decrease) in market yields, discount rates, or an increase/(decrease) in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a corresponding increase/(decrease), respectively, in the fair value of certain of our investments. In the case of our holdings in Equus Energy and Morgan, we also consider acreage value, proved reserve multiples, daily production multiples, and discount rates.

Finally, industry trends, market forecasts, and comparable transactions in sectors in which we hold a Level 3 investment are also taken into account when assessing the value of these investments.

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The following table summarizes the significant non-observable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of June 30, 2024 (fair value expressed in thousands; acreage range expressed in dollars and not rounded):

				Range		
(in thousands) **Limited liability company investments**	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Minimum**	**Maximum**	**Weighted Average**
Equus Energy, LLC	$ 10,000	Guideline Transaction Method	Acreage Value (per acre)	$1,500	$11,000	$4,062
			Proved Reserve Multiple	4.3x	11.1x	9.1x
			Daily Production Multiple	18,357.4x	47,107.0x	41,330.7x
		Discounted Cash Flow	Discount Rate	11.1%	11.1%	11.1%
Morgan E&P, LLC	26,000	Guideline Public Company Method	Proved Reserve Multiple	11,170x	13,727x	13,131x
			Daily Production Multiple	49,999x	64,797x	49,975x
		Guideline Transaction Method	Proved Reserve Multiple	9,061x	11,758x	10,894x
			Daily Production Multiple	34,249x	60,375x	44,360x
		Discounted Cash Flow	Discount Rate	10.4%	12.1%	11.25%
Senior debt						
Morgan E&P, LLC	10,500	Yield analysis	Discount for lack of marketability	11.54%	12.0%	11.77%
	$ 46,500					

The following table summarizes the significant non-observable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of December 31, 2023 (fair value expressed in thousands; acreage range expressed in dollars and not rounded):

				Range		
(in thousands) **Limited liability company investments**	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Minimum**	**Maximum**	**Weighted Average**
			Acreage Value (per acre)	$1,500	$11,000	$4,062
Equus Energy, LLC	$ 10,000	Guideline Transaction Method	Proved Reserve Multiple	4.2x	10.9x	9.0x
			Daily Production Multiple	19,577.2x	47,197.76x	41,648.4x
		Discounted Cash Flow	Discount Rate	12.8%	12.8%	12.8%
			Proved Reserve Multiple	10,180x	13,953x	12,067x

		Guideline Public Company Method	Daily Production Multiple	44,054x	58,025x	51,040x
Morgan E&P, LLC	22,600	Guideline Transaction Method	Proved Reserve Multiple	8,878x	12,716x	10,797x
			Daily Production Multiple	32,565x	59,790x	46,178x
		Discounted Cash Flow	Discount Rate	10.9%	12.9%	11.90%
Senior debt						
Morgan E&P, LLC	8,253	Yield analysis	Discount for lack of marketability	11.13%	12.0%	11.57%
	$ 40,853					

The various weighted averages in the table above were determined based on acreage, reserves, production and, in the case of discount rates, an arithmetic average of minimum and maximum rates. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities.

We adjust our net asset value for the changes in the value of our publicly held securities, if applicable, and material changes in the value of private securities, generally determined on a quarterly basis or as announced in a press release, and report those amounts to Lipper Analytical Services, Inc. Our net asset value appears in various publications, including *Barron's* and *The Wall Street Journal*.

Investment Transactions— Investment transactions are recorded at fair value on the trade date. Current-period changes in fair value of investments are reflected as a component of the net unrealized appreciation of portfolio securities on the Statements of Operations. The net change in unrealized appreciation primarily reflects the change in investment fair values as of the last business day of the reporting period, including the reversal of previously recorded unrealized gains or losses for investments sold during the period. Realized gains or losses are recognized as the difference between the net proceeds received (excluding prepayment fees, if any) and the amortized cost basis of the investment using the specific identification method without regard to unrealized gains or losses previously recognized, and include investments written off during the period, net of recoveries. As June 30, 2024, we have no assets going through foreclosure. Realized gains and losses on investments sold are computed on a specific identification basis.

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in companies in which the Fund owns more than 25% of the voting securities or maintains greater than 50% of the board representation. Under the 1940 Act, "Affiliate Investments" are defined as those non-control investments in companies in which we own between 5% and 25% of the voting securities. Under the 1940 Act, "Non-affiliate Investments" are defined as investments that are neither Control Investments nor Affiliate Investments.

Interest and Dividend Income Recognition—We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We accrete or amortize discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We will write off uncollectible interest upon the occurrence of a definitive event such as a sale, bankruptcy, or reorganization of the relevant portfolio interest. Dividend income is recorded as dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation —Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption of an investment or a financial instrument and the cost basis of the investment or financial instrument, without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period net of recoveries and realized gains or losses from in-kind redemptions. Net change in unrealized appreciation or depreciation reflects the net change in the fair value of the portfolio company investments and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments and financial instruments to realized gains or losses.

Payment in Kind Interest (PIK)—From time to time, we have loans in our portfolio that may pay PIK interest. We add PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, we must pay out to stockholders this non-cash source of income in the form of dividends even if we have not yet collected any cash in respect of such investments. To the extent we remain BDC and a RIC, we will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

Earnings Per Share—Basic and diluted per share calculations are computed utilizing the weighted-average number of shares of common stock outstanding for the period. In accordance with Accounting Standards Codification Topic 260, Earnings Per Share, the unvested shares of restricted stock awarded pursuant to our equity compensation plans are participating securities and, therefore, are included in the basic earnings per share calculation. As a result, for all periods presented, there is no difference between diluted earnings per share and basic earnings per share amounts.

Distributable Earnings—The components that make up distributable earnings (accumulated undistributed deficit) on the Condensed Balance Sheet as of June 30, 2024 and December 31, 2023 are as follows:

	June 30, 2024	December 31, 2023
Accumulated undistributed net investment losses	$ (53,435)	$ (51,465)
Unrealized appreciation of portfolio securities, net	27,889	24,489
Accumulated undistributed net capital gains	539	464
Accumulated deficit	$ (25,007)	$ (26,512)

Taxes—So long as we remain a BDC, we intend to comply with the requirements of the Internal Revenue Code necessary to qualify as a RIC and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gains) which is distributed to stockholders. We borrow money from time to time to maintain our tax status under the Internal Revenue Code as a RIC. See Note 1 for discussion of Taxable Subsidiaries and see Note 2 for further discussion of the Fund's RIC borrowings.

Texas margin tax applies to legal entities conducting business in Texas. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax. As a result, we have no provision for margin tax expense for the three months ended June 30, 2024, and we expect no in state income tax for the year ended December 31, 2023.

Cash Flows—For purposes of the Statements of Cash Flows, we consider all highly liquid temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. We exclude "Restricted Cash and U.S. Treasury Bills" used for purposes of complying with RIC requirements from cash equivalents.

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the consolidated balance sheet that sums to the total of the same amounts shown in the consolidated statement of cash flows as of June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Cash and cash equivalents at end of period	$ 1,878	$ 6,533
Restricted cash at end of period	539	450
Cash and cash equivalents and restricted cash at end of period	$ 2,417	$ 6,983

Recent Accounting Standards—We consider the applicability and impact of all accounting standard updates ("ASU") issued by the Financial Accounting Standards Board ("FASB"). ASUs not listed below were assessed and either determined to be not applicable or expected to have minimal impact on our financial statements.

Accounting Standards Recently Adopted— In June 2022, the FASB issued ASU 2022-03, "Fair Value Measurement (Topic 820) - Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions", which was issued to (1) clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example, and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The new guidance is effective for interim and annual periods beginning after December 15, 2023. There was no impact on the financial statements or financial statement disclosures.

(4) Related Party Transactions and Agreements

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

In respect of services provided to the Fund by members of the Board not in connection with their roles and duties as directors, the Fund pays a rate of $300 per hour for such services.

(5) Portfolio Securities

In the second quarter of 2023, we established Morgan E&P, LLC ("Morgan") as a wholly-owned subsidiary of the Fund. In May 2023, we entered into an agreement with Morgan to provide it up to $10.0 million in senior debt financing, subject to a schedule of disbursements and draws that we determine. Morgan utilized $500,000 of this facility to acquire its initial 4,747.52 net acres, in the Bakken/Three Forks formation in the Williston Basin of North Dakota as described in Note 9 - *Morgan E&P, LLC* below. During the third quarter of 2023, Morgan also acquired an additional 1,100 net acres in this region. During the fourth quarter of 2023, Morgan sold certain of its wellbore interest in its initial two wells to a third party for $5.6 million in cash in exchange for a net revenue interest of approximately 27% in these wells. During the second quarter of 2024, Morgan acquired an additional 810 net acres proximate to its other acreage holdings.

In February 2024, we amended our credit facility with Morgan and increased the total amount that may be drawn under the facility from $10.0 to $10.5 million and, during the first quarter of 2024, we advanced Morgan an additional $2.2 million thereunder. As of June 30, 2024, our debt facility with Morgan had been fully drawn. During the three months ended June 30, 2024, we recorded an increase in the fair value of the equity of Morgan of $4.75 million from $21.25 million to $26.0 million, principally due to the acquisition of additional acreage during the quarter and a combination of qualitative and quantitative factors affecting Morgan during the quarter.

During the first six months of 2024, WTI prices increased from $71.65 per barrel at December 31, 2023 to $82.83 at June 30, 2024. Gas prices decreased from $2.63 at December 31, 2023 to $2.42 at the end of the second quarter of 2024. Despite the decrease in gas prices during the period, due to offsetting increases in crude prices, as well as stable prices for mineral acreage transactions in the principal region where Equus Energy, LLC, holds its leasehold interests, we recorded no change in the fair value of this investment.

During the six months ended June 30, 2023, notwithstanding price decreases for oil and natural gas in the period, primarily due to stable prices for mineral acreage transactions in the principal region where Equus Energy, LLC, holds its leasehold interests, we recorded no change in the fair value of this investment.

(6) Conversion to an Operating Company

Authorization to Withdraw BDC Election—In previous years, holders of a majority of the outstanding common stock of the Fund approved our cessation as a BDC under the 1940 Act and authorized our Board to cause the Fund's withdrawal of its election to be classified as a BDC, effective as of a date designated by the Board and our Chief Executive Officer. Although this authorization has since expired, we expect to receive a further authorization from our shareholders later in 2024 or 2025 as a consequence of our expressed intent to transform Equus into an operating company. Notwithstanding any such authorization to withdraw our BDC election, we will not submit any such withdrawal unless and until Equus has entered into a definitive agreement to effect a transformative transaction. Further, even if we are again authorized to withdraw our election as a BDC, we will require a subsequent affirmative vote from holders of a majority of our outstanding voting shares to enter into any such definitive agreement or change the nature of our business. While we are presently evaluating various opportunities that could enable us to accomplish this transformation, we cannot assure you that we will be able to do so within any particular time period or at all, and, although we expect that our shareholders will grant a further authorization, we do not expect to cause the Fund to withdraw its election to be classified as BDC prior to September 30, 2024. Moreover, we cannot assure you that the terms of any such transformative transaction would be acceptable to us.

Increase in Authorized Shares— On January 20, 2021, holders of a majority of the outstanding common stock of the Fund approved the restatement of our Certificate of Incorporation to increase the number of our authorized shares of common stock from 50,000,000 to 100,000,000, and the number of our authorized shares of preferred stock from 5,000,000 to 10,000,000. The increase is intended to help facilitate the transformation of Equus into an operating company and provide sufficient authorized shares to evaluate larger business concerns as possible acquisition or merger candidates.

(7) 2016 Equity Incentive Plan

Share-Based Incentive Compensation—On June 13, 2016, our shareholders approved the adoption of our 2016 Equity Incentive Plan ("Incentive Plan"). On January 10, 2017, the SEC issued an order approving the Incentive Plan and certain awards intended to be made thereunder. The Incentive Plan is intended to promote the interests of the Fund by encouraging officers, employees, and directors of the Fund and its affiliates to acquire or increase their equity interest in the Fund and to provide a means whereby they may develop a proprietary interest in the development and financial success of the Fund, to encourage them to remain with and devote their best efforts to the business of the Fund, thereby advancing the interests of the Fund and its stockholders. The Incentive Plan is also intended to enhance the ability of the Fund and its affiliates to attract and retain the services of individuals who are essential for the growth and profitability of the Fund. The Incentive Plan permits the award of restricted stock as well as common stock purchase options. The maximum number of shares of common stock that are subject to awards granted under the Incentive Plan is 2,434,728 shares. The term of the Incentive Plan will expire on June 13, 2026. On March 17, 2017, we granted awards of restricted stock under the Incentive Plan to certain of our directors and executive officers in the aggregate amount of 844,500 shares. The awards are each subject to a vesting requirement over a 3-year period unless the recipient thereof is terminated or removed from their position as a director or executive officer without "cause", or as a result of constructive termination, as such terms are defined in the respective award agreements entered into by each of the recipients and the Fund. As of June 30, 2020, all awards granted under the Incentive Plan were fully vested. We account for share-based compensation using the fair value method, as prescribed by ASC 718. Accordingly, for restricted stock awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant and amortize the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term.

(8) Equus Energy, LLC

Equus Energy, LLC ("Equus Energy") was formed in November 2011 as a wholly-owned subsidiary of the Fund to make investments in companies in the energy sector, with particular emphasis on income-producing oil & gas properties. In December 2011, we contributed $250,000 to the capital of Equus Energy. On December 27, 2012, we invested an additional $6.8 million in Equus Energy for the purpose of additional working capital and to fund the purchase of $6.6 million in working interests presently consisting of 136 producing and non- producing oil and gas wells. On September 30, 2020, the Fund provided an additional $0.6 million in capital to Equus Energy for the purpose of additional working capital. On June 30, 2021, the Fund provided an additional $0.35 million in capital to Equus Energy for the purpose of additional working capital. On December 31, 2022, the Fund provided an additional $0.15 million in capital to Equus Energy for the purpose of additional working capital. The working interests include associated development rights of approximately 21,320 acres situated on 9 separate properties in Texas and Oklahoma. The working interests range from a de minimus amount to 50% of the leasehold that includes these wells.

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

Beginning in the second quarter of 2022, crude prices began a steady decline following increases that were largely due to increased post-Covid demand and the buildup and subsequent invasion of Ukraine by Russian forces. Prices began to rise again in the third quarter of 2023, retreated during the fourth quarter of 2023, and have increased significantly since the beginning of 2024 and stood at $82.83 as of June 30, 2024. Natural gas prices experienced high volatility in 2022 before collapsing in 2023 and have thereafter remained generally stable, finishing the first six months of 2024 at $2.42 per MMBTU. Recent oil price stability and subsequent price increases have been significant factors in increased consolidation activity in the Permian Basin where Equus Energy holds most of its development rights. On July 9, 2024, the U.S. Energy Information Administration issued estimates of $82.03 and $83.88 for the average WTI price per barrel of oil for the years 2024 and 2025, respectively.

Notwithstanding present pricing conditions and forecasts, operators of the leasehold interests held by Equus Energy have not yet undertaken significant capital expenditures, which could have a material adverse effect upon the operations and long-term financial condition of Equus Energy. To conserve existing cash resources or create additional cash resources during the next year, Equus Energy intends to either: (i) attempt to secure equity or debt financing from one or more institutional sources, which sources may include the Fund, a commercial lender, or other investors, (ii) request that its operators shut-in additional wells, (iii) sell certain of its oil and gas holdings, or (iv) undertake a combination of the foregoing. However, we cannot assure you that Equus Energy will be able to implement these plans successfully, or that such plans will generate sufficient liquidity to continue as a going concern. The factors discussed above, therefore, raise substantial doubt about Equus Energy's ability to continue as a going concern.

Going-Concern—The accompanying unaudited condensed consolidated financial statements of Equus Energy have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and other commitments in the normal course of business. As such, the unaudited condensed consolidated financial statements do not include adjustments relating to the recoverability and classification of assets and their carrying amount, or the amount and classification of liabilities that may result should Equus Energy be unable to continue as a going concern. It is possible Equus Energy will require loans or capital investment from one or more sources, or will be required to dispose of certain of its assets, to cover a potential cash shortfall. Equus Energy does not presently have any existing commitments to fund any such shortfall, should it occur, and cannot guarantee that it will be able to secure a commitment in the future.

Revenue and Income—During the three months ended June 30, 2024, Equus Energy's revenue, operating revenue less direct operating expenses, and net income were $0.16 million, $0.07 million, and $0.03 million, respectively, as compared to revenue, operating revenue less direct operating expenses, and net income of $0.18 million, $0.03 million, and $0.6 million, respectively, for the three months ended June 30, 2023.

During the six months ended June 30, 2024, Equus Energy's revenue, operating revenue less direct operating expenses, and net income were $0.4 million, $0.16 million, and $2 thousand, respectively, as compared to revenue, operating revenue less direct operating expenses, and net loss of $0.3 million, $6 thousand, and $0.03 million, respectively, for the six months ended June 30, 2023.

Capital Expenditures—During the six months ended June 30, 2024 and June 30, 2023, Equus Energy's investment, respectively, in capital expenditures for small repairs and improvements was not significant.

We do not consolidate Equus Energy or its wholly-owned subsidiaries and accordingly only the value of our investment in Equus Energy is included on our balance sheets. Our investment in Equus Energy is valued in accordance with our normal valuation procedures and is based in part on a reserve report, dated January 1, 2024, prepared for Equus Energy by Lee Keeling & Associates, Inc., an independent petroleum engineering firm, the transactions and values of comparable companies in this sector, and the estimated value of leasehold mineral interests associated with the acreage held by Equus Energy. A valuation of Equus Energy was performed by a third-party valuation firm, who recommended a value range of Equus Energy consistent with the fair value determined by our Management (See Schedule of Investments).

Below is summarized unaudited condensed consolidated financial information for Equus Energy as of June 30, 2024 and December 31, 2023 and for the three and six months ended June 30, 2024 and 2023, respectively (in thousands):

EQUUS ENERGY, LLC
Unaudited Condensed Consolidated Balance Sheets

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 31	$ 71
Accounts receivable	192	167
Total current assets	223	238
Oil and gas properties	8,173	8,173
Less: accumulated depletion, depreciation and amortization	(8,104)	(8,097)
Net oil and gas properties	69	77
Total assets	$ 292	$ 315
Liabilities and member's deficit		
Current liabilities:		
Accounts payable and other	$ 78	$ 105
Due to affiliate	126	126
Total current liabilities	204	231
Asset retirement obligations	235	233
Total liabilities	439	464
Total member's deficit	(147)	(149)
Total liabilities and member's deficit	$ 292	$ 315

Revenue and direct operating expenses for the various oil and gas assets included in the unaudited condensed consolidated statements of operations below represent the net collective working and revenue interests acquired by Equus Energy.

EQUUS ENERGY, LLC
Unaudited Condensed Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Operating revenue	$ 160	$ 180	$ 365	$318
Operating expenses				
Direct operating expenses	92	146	203	312
General and administrative	38	451	151	971
Depletion, depreciation, amortization and accretion	4	1	9	2
Other income	—	(1,000)	—	(1,000)
Total operating expenses	134	(402)	363	285
Net income	26	582	2	33

EQUUS ENERGY, LLC
Unaudited Condensed Consolidated Statements of Cash Flows

Six months ended June 30,	
2024	2023

Cash flows from operating activities:		
Net income	$ 2	$ 33
Adjustments to reconcile net income to		
net cash (used in) provided by operating activities:		
Depletion, depreciation and amortization	7	2
Accretion expense	2	—
Changes in operating assets and liabilites:		
Accounts receivable	(25)	49
Prepaid expenses and other current assets	—	(3)
Accounts payable and other	(26)	15
Due to Parent	—	(24)
Net cash (used in) provided by operating activities	(40)	72
Cash flows from investing activities:		
Investment in oil & gas properties	—	(3)
Net cash (used in) investing activities	—	(3)
Net (decrease) increase in cash	(40)	69
Cash and cash equivalents at beginning of period	71	205
Cash and cash equivalents at end of period	$ 31	$ 274

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Critical Accounting Policies for Equus Energy

Oil & Gas Properties—Equus Energy and its wholly-owned subsidiary EQS Energy Holdings, Inc. (collectively, "the Company") follow the Full Cost Method of Accounting for oil and gas properties. Under the full cost method, all costs associated with property acquisition, exploration, and development activities are capitalized. Capitalized costs include lease acquisitions, geological and geophysical work, delay rentals, costs of drilling, completing and equipping successful and unsuccessful oil and gas wells and related costs. Gains or losses are normally not recognized on the sale or other disposition of oil and gas properties. Gains or losses are normally reflected as an adjustment to the full cost pool. Any excess of the net book value of proved oil and gas properties over the ceiling is charged to expense and reflected as additional impairment in the accompanying statements of operations.

The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves and estimated cost of dismantlement and abandonment, net of salvage value, are amortized on a unit-of-production method over the estimated productive life of the proved oil and gas reserves. Unevaluated oil and gas properties are excluded from this calculation. Depletion, depreciation, amortization and accretion expense for the Company's oil and gas properties totaled $9 thousand and $2 thousand for the six months ended June 30, 2024 and 2023, respectively.

Capitalized oil and gas property costs are limited to an amount (the ceiling limitation) equal to the sum of the following:

(a) As of June 30, 2024, the present value of estimated future net revenue from the projected production of proved oil and gas reserves, calculated at the simple arithmetic average, first-day-of-the-month prices during the twelve-month period before the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements) and a discount factor of 10%;

(b) The cost of investments in unproved and unevaluated properties excluded from the costs being amortized; and

(c) The lower of cost or estimated fair value of unproved properties included in the costs being amortized.

When it is determined that oil and gas property costs exceed the ceiling limitation, an impairment charge is recorded to reduce its carrying value to the ceiling limitation. The Company recognized no impairment loss on its oil and gas properties during the six months ended June 30, 2024 and 2023.

The costs of certain unevaluated leasehold acreage and certain wells being drilled are not amortized. The Company excludes all costs until proved reserves are found or until it is determined that the costs are impaired. Costs not amortized are periodically assessed for possible impairment or reduction in value. If a reduction in value has occurred, costs being amortized are increased accordingly.

Revenue Recognition—The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers.*

The Company's revenue is generated primarily from the sale of oil, gas and natural gas liquids ("NGL") produced from working interests and to a lesser extent from royalty interests in oil and gas properties owned by the Company. As a working interest owner, the Company is responsible for the incurred production expenses proportionate to the interest stipulated in the operating agreement. As a non-operator, the Company does not manage the daily well operations, which are borne by the well operator. Sales of oil, gas and NGLs are recognized at the time control of the product is transferred to the customer.

Various arrangements amongst the eleven different oil and gas properties all differ in some respects, although they do share the commonality that, as a non-operating working interest holder, the Company does not engage in the selling process, but instead relies on the operator, as their selling agent, for negotiating and determining pricing, volume, and delivery terms. Such pricing terms are often a function of a specified discount from the daily/monthly NYMEX or Henry Hub average. The discount is usually based on differentials such as distance of the field/wells from the distribution node or the buyer's storage facility, as well as the quality of the product itself (i.e., in the case of oil, its gravity).

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Revenue is measured based on consideration specified in the contract with the customer, and excludes any amounts collected on behalf of third parties. The Company recognizes revenue in the amount that reflects the consideration it expects to be entitled to in exchange for transferring control of those goods to the customer. The contract consideration is typically allocated to specific performance obligations in the contract according to the terms of the contract. Each unit of oil or gas is considered a separate performance obligation under the contract. Wells are spot measured once a month to determine production and the composition of each of the products (i.e. oil, gas, NGLs) from the well. Each month the consideration obtained by the operator is allocated to the related performance obligations.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Revenue is recognized when performance obligations are satisfied in accordance with contractual terms, in an amount that reflects the consideration the Company expects to be entitled to in exchange for services rendered.

Depending on the contract and commodity, there are various means by which upstream entities can transfer control (i.e., at the wellhead, inlet, tailgate of the processing plant, or a location where the product is delivered to a third party). The Company has control of the commodity before it is extracted, therefore consideration must be given to whether the transfer of control of the commodity is to the operator or to the end customer at the point of sale.

Unless special arrangements are entered into, the Company's performance obligations are generally considered performed when control of the extracted commodity transfers when it is delivered to the end customer at the agreed-upon market or index price. At the end of each month, when the performance obligation is satisfied, the variable consideration can be reasonably estimated. Variances between the Company's estimated revenue and actual payments are recorded in the month the payment is received.

Principal vs. Agent

While the guidance on principal versus agent considerations is similar to legacy GAAP, the key difference is that ASC 606 focuses on control of the specified goods and services as the overarching principle for entities to consider when determining whether they are acting as a principal or an agent. This could result in entities reaching different conclusions than they did under legacy GAAP.

An entity acting as a principal records revenue on a gross basis if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent if it does not control the promised good or service before transfer to the customer. If the entity is an agent, it records as revenue the net amount it retains for its agency services. However, due to the uncertainty of the variable pricing component and the separation of expenses billed to the Company from the consideration processed and paid by the operator, the revenue is recorded at net.

Under the Company's normal operating activity arrangements, the operator is responsible for negotiating, fulfilling and collecting the agreed-upon amount from the sale with the end customer and is, therefore, determined to be acting as agent on behalf of the Company. The principal versus agent consideration will continue to be assessed for new contracts, both within and outside the company's normal operating activities.

Income Taxes—A limited liability company is not subject to the payment of federal income taxes as components of its income and expenses flow through directly to the members. However, the Company is subject to certain state income taxes. Texas margin tax applies to legal entities conducting business in Texas. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax. Taxable Subsidiaries may generate income tax expense because of the Taxable Subsidiaries' ownership of the portfolio companies. We reflect any such income tax expense on our Statements of Operations. The Company had no federal income tax expense for the six months ending June 30, 2024 and June 30, 2023, respectively.

Asset Retirement Obligations—The fair value of asset retirement obligations are recorded in the period in which they are incurred if a reasonable estimate of fair value can be made, and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The fair value of the asset retirement obligation is measured using expected future cash outflows discounted at the Company's credit- adjusted risk-free interest rate. Fair value, to the extent possible, should include a market risk premium for unforeseeable circumstances. No market risk premium was included in the Company's asset retirement obligation fair value estimate since a reasonable estimate could not be made. The liability is accreted to its then present value each period, and the capitalized cost is depleted or amortized over the estimated recoverable reserves using the units-of-production method.

(9) Morgan E&P, LLC

Morgan E&P, LLC ("Morgan") was organized by the Fund on April 3, 2023 as a Delaware limited liability company and a wholly-owned subsidiary of the Fund. On May 22, 2023, Morgan completed the acquisition of 4,747.52 net acres, in the Bakken/Three Forks formation in the Williston Basin of North Dakota, and acquired approximately 1,100 additional acres on September 26, 2023. During the second quarter of 2024, Morgan acquired an additional 810 net acres proximate to its existing holdings. All of these holdings were acquired from Pro Energy I, LLC ("Pro Energy"), an experienced developer of oil and gas properties in the region.

Under the terms of the Purchase and Sale Agreement entered into by Morgan and Pro Energy, Morgan is required to drill and complete a minimum of six wells within 18 months of receiving the first drilling permits. The average cost of drilling a new horizontal well is approximately $8.2 million. During the fourth quarter of 2023, Morgan sold certain of its wellbore interest in its initial 2 wells to a third party for $5.6 million in cash in exchange for a net revenue interest of approximately 27% in these wells. With the exception of these initial two wells and the 27% net revenue interest sold to a third party, Morgan will receive an average net revenue interest ("NRI") of 80% in the production of future wells drilled, and after operating expenses are deducted from the NRI, Pro Energy shall receive a carried interest for 20% of these net cash flows.

During the six months ended June 30, 2024, in addition to the increase in acreage noted above, Morgan also experienced an increase in proved reserves and probable reserves, largely due to the commencement of production of its initial two wells that were drilled and completed in the fourth quarter of 2023.

In May 2023, we entered into an agreement with Morgan to provide it up to $10.0 million in senior debt financing, subject to a schedule of disbursements and draws that we determine. In February 2024, we increased the total amount of the facility to $10.5 million. As of June 30, 2024, the facility had been fully-drawn.

Going-Concern—The accompanying unaudited condensed consolidated financial statements of Morgan have been prepared on a going concern basis, which contemplates the near-term sale of quantities of oil and gas, realization of assets and the satisfaction of liabilities and other commitments in the normal course of business. As such, the unaudited condensed consolidated financial statements do not include adjustments relating to the recoverability and classification of assets and their carrying amount, or the amount and classification of liabilities that may result should Morgan be unable to continue as a going concern. However, because the Fund has extended a $10.5 million in senior debt financing as noted above, Fund management concluded this arrangement alleviates doubts about the ability of Morgan to continue as a going concern for at least twelve months from the date the financial statements were issued.

We do not consolidate the financial results of Morgan with the financial results of the Fund and, accordingly, only the value of our investment in Morgan is included on our balance sheets. Our investment in Morgan is valued in accordance with our normal valuation procedures and is based in part on a reserve report prepared for Morgan by Cawley, Gillespie, & Associates, Inc., an independent petroleum engineering firm, the transactions and values of comparable companies in this sector, and the estimated value of leasehold mineral interests associated with the acreage held by Morgan. A valuation of Morgan was performed by a third-party valuation firm, who recommended a value range of Morgan consistent with the fair value determined by our Management (See Schedule of Investments).

Below is summarized unaudited condensed consolidated financial information for Morgan E&P, LLC as of June 30, 2024 and December 31, 2023 and for the three and six months ended June 30, 2024, and the period from inception (April 3, 2023) through June 30, 2023, respectively, (in thousands):

MORGAN E&P, LLC
Unaudited Condensed Balance Sheet

	June 30, 2024	December 31, 2023
Assets:		
Cash	$ 417	$ 2,441
Revenue receivables	571	464
Joint interest billing receivables	2,228	1,391
Other receivables	87	—
Prepaids and other current assets	47	133
Current assets	3,350	4,429
Property, plant and equipment		
Oil and gas properties, net - full cost method	11,301	10,326
Other property, plant and equipment, net	40	46
Total property, plant and equipment - net	11,341	10,372
Other noncurrent assets		
Operating lease right-of-use assets, net	247	270
Total noncurrent assets	247	270
Total assets	$ 14,938	$ 15,071
Liabilities and Member's Deficit:		
Current liabilities		
Accounts payable	$ 5,317	$ 2,372
Revenue payable	717	221
Prepayments from working interest owners	—	122
Current portion of operating lease liabilities	43	28
Due to parent	13	13
Accrued liabilities	1,171	5,383
Total current liabilities	7,261	8,139
Long-term liabilities		
Asset retirement obligations	3	4
Long-term operating lease liabilities	232	254
Note payable - Due to parent	10,500	8,253
Long-term accrued liabilities - Due to parent	826	225
Total long-term liabilities	11,561	8,736
Total liabilities	18,822	16,875
Retained earnings - beginning of year	(1,804)	—
Current year deficit	(2,080)	(1,804)
Member's deficit	(3,884)	(1,804)
Total liabilities and member's deficit	$ 14,938	$ 15,071

MORGAN E&P, LLC
Unaudited Condensed Consolidated Statement of Operations

	Three months ended June 30,		Six months ended June 30,	From inception through June 30,
	2024	2023	2024	2023
Oil and gas revenues				
Oil revenues	$ 1,294	$ —	$ 2,310	$ —
Gas revenues	16	—	31	—
Natural gas liquid revenues	81	—	125	—
Oil and gas revenue	1,391	—	2,466	—
Operating costs and expenses				
Lease operating	628	—	1,996	—
Production and ad valorem taxes	132	—	235	—

Marketing, transportation and gathering	50	—	78	—
Depreciation, depletion, and amortization	273	—	498	—
General and administrative	624	128	1,138	128
Total operating costs and expenses	1,707	128	3,945	128
Loss from operations	(316)	(128)	(1,479)	(128)
Other income (expense)				
Interest income	—	—	6	—
Interest expense	(324)	(8)	(607)	(8)
Total other income (expense), net	(324)	(8)	(601)	(8)
Net loss	$ (640)	$ (136)	$ (2,080)	$ (136)

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MORGAN E&P, LLC
Unaudited Condensed Consolidated Statement of Cash Flows

	Six months ended June 30, 2024	From inception through June 30, 2023
Cash flows from operating activities:		
Net loss	$ (2,080)	(136)
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities:		
Depreciation, depletion, amortization	498	
Amortization of right-of-use asset	23	
Changes in operating assets and liabilities:		
Revenue receivables	(107)	(12)
Joint interest billing receivables	652	
Prepaids and other current assets	(1)	
Accounts payable	1,606	8
Revenue payable	496	
Prepayments from working interest owners	(122)	
Payment of operating lease liability	(7)	
Accrued liabilities	(311)	
Due to parent	601	13
Net cash provided by (used in) operating activities	1,248	(127)
Cash flows from investing activities:		
Additions to oil and gas properties	(5,519)	(500)
Net cash used in investing activities	(5,519)	(500)
Cash flows from financing activities:		
Proceeds from Note payable - Due to parent	2,247	750
Net cash provided by financing activities	2,247	750
Net change in cash	(2,024)	123
Cash at beginning of period	2,441	—
Cash at end of period	$ 417	$ 123

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Critical Accounting Policies for Morgan

Acquisitions—Morgan evaluates each acquisition of oil and gas properties to determine whether each should be accounted for as an acquisition of assets or business in accordance with Accounting Standards Update No. 2017-01: Business Combinations (Topic 805) Clarifying the Definition of a Business ("ASU 2017-01").

Asset acquisitions are recorded at the cost of acquiring the property. The results of operations of the oil and gas properties acquired in the

Company's acquisitions have been included in the consolidated financial statements since the closing dates of the respective acquisitions. A business combination may result in the recognition of a bargain purchase gain or goodwill based on the measurement of the fair value of the assets and liabilities acquired at the acquisition date as compared to the fair value of consideration transferred, adjusted for purchase price adjustments. The initial accounting for business combinations may not be complete and adjustments to provisional amounts, or recognition of additional assets acquired or liabilities assumed, may occur as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition dates.

Oil & Gas Properties—The method of accounting for oil and natural gas properties determines what costs are capitalized and how these costs are ultimately matched with revenue and expenses. Morgan uses the full cost method of accounting for oil and natural gas properties. Under the full cost method, all direct costs and certain indirect costs associated with the acquisition, exploration, and development of oil and natural gas properties are capitalized.

Oil and gas properties include costs that are excluded from costs being depleted or amortized. Oil and natural gas property costs excluded represent investments in unproved properties and include non-producing leasehold, geological and geophysical costs associated with leasehold or drilling interests and exploration costs. The Company excludes these costs until the project is evaluated and proved reserves are established or impairment is determined. Excluded costs are reviewed at least annually to determine if impairment has occurred. The amount of any evaluated or impaired oil and natural gas properties is transferred to capitalized costs being amortized. For the six months ended June 30, 2024, the Company transferred $1.4 million to the full cost pool.

Oil and natural gas properties are depleted using the units-of-production method. The depletion expense is significantly affected by the unamortized historical and future development costs and the estimated proved oil and natural gas reserves. Estimation of proved oil and natural gas reserves relies on professional judgment and the use of factors that cannot be precisely determined. Holding all other factors constant, if proved oil and natural gas reserves were revised upward or downward, earnings would increase or decrease, respectively. Subsequent proved reserve estimates that are materially different from those reported would change the depletion expense recognized during the future reporting period. Proceeds from the sales or disposition of oil and natural gas of proved and unproved properties are accounted for as a reduction of capitalized costs with no gain or loss recognized, unless such reduction would significantly alter the relationship between capitalized costs and proved reserves, in which case the gain or loss is recognized in the statement of income. In general, a significant alteration occurs when the deferral of gains or losses will result in an amortization rate materially different from the amortization rate calculated upon recognition of gains or losses. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

Under the full cost accounting rules, total capitalized costs are limited to a ceiling equal to the present value of future net revenue, discounted at 10% per annum, plus the lower of cost or fair value of unevaluated properties less income tax effects (the "ceiling limitation"). Future net revenue used to calculate the ceiling do not include cash outflows associated with settling asset retirement obligations. Morgan performs an annual ceiling test to evaluate whether the net book value of the full cost pool exceeds the ceiling limitation. If capitalized costs (net of accumulated depreciation, depletion, and amortization) are greater than the discounted future net revenue or ceiling limitation, a write-down or impairment of the full cost pool is required. A write-down of the carrying value of the full cost pool is a non-cash charge that reduces earnings and impacts members' equity in the period of occurrence and typically results in lower depreciation, depletion, and amortization expense in future periods. Once incurred, a write-down is not reversible at a later date. The risk that Morgan will be required to write-down the carrying value of oil and natural gas properties increases during a period when oil or gas prices are depressed. In addition, a write-down may occur if estimates of proved reserves are substantially reduced or estimates of future development costs increase significantly.

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Income Taxes—A limited liability company is not subject to the payment of federal income taxes as components of its income and expenses flow through directly to the members. However, Morgan may be subject to certain state income taxes, inasmuch as it maintains a registered office in Texas. Texas margin tax applies to legal entities conducting business in Texas. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax. Taxable Subsidiaries may generate income tax expense because of the Taxable Subsidiaries' ownership of the portfolio companies. We reflect any such income tax expense on our Statements of Operations. Morgan had no federal income tax expense since inception.

Asset Retirement Obligations—The fair value of asset retirement obligations are recorded in the period in which they are incurred if a reasonable estimate of fair value can be made, and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The fair value of the asset retirement obligation is measured using expected future cash outflows discounted at Morgan's credit- adjusted risk-free interest rate. Fair value, to the extent possible, should include a market risk premium for unforeseeable circumstances. No market risk premium was included in Morgan's asset retirement obligation fair value estimate since a reasonable estimate could not be made. The liability is accreted to its then present value each period, and the capitalized cost is depleted or amortized over the estimated recoverable reserves using the units-of-production method. If the obligation is settled for other than the carrying amount of the liability, the Company will record the difference to the full cost pool.

Environmental Matters

We do not believe the existence of current environmental laws or interpretations thereof will materially hinder or adversely affect Morgan's business operations; however, there can be no assurances of future effects on Morgan of new laws or interpretations thereof.

Environmental Contingencies

Morgan's activities are subject to local, state, and federal laws and regulations governing environmental quality and pollution control in the United States. The exploration, drilling and production from wells, natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating, or storing natural gas and other products, are subject to stringent environmental regulation by state and federal authorities, including the Environmental Protection Agency ("EPA"). Such regulation can increase the cost of planning, designing, installing, and operating such facilities.

(10) Subsequent Events

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

In July 2024, our holding in $54.0 million in U.S. Treasury Bills matured and we repaid our margin loan.

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

Equus Total Return, Inc. ("we," "us," "our," "Equus," and the "Fund"), a Delaware corporation, was formed on August 16, 1991. Our shares trade on the New York Stock Exchange under the symbol 'EQS'. Our investment strategy seeks to provide the highest total return, consisting of capital appreciation and current income.

The information contained in this section should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this Quarterly Report and in conjunction with the financial statements and notes thereto in the Fund's Form 10-K for the year ended December 31, 2023, as filed with the SEC. In addition, some of the statements in this report constitute forward-looking statements. The matters discussed in this Quarterly Report, as well as in future oral and written statements by management of Equus, that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, and the availability of additional capital. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Quarterly Report should not be regarded as a representation by us that our plans or objectives will be achieved. The forward- looking statements contained in this Quarterly Report include statements as to:

- our future operating results;
- our business prospects and the prospects of our existing and prospective portfolio companies;
- the return or impact of current and future investments;
- our contractual arrangements and other relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the financial condition and ability of our existing and prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment;
- our ability to qualify and operate as a BDC and a RIC, including the impact of changes in laws or regulations governing our operations, or the operations of our portfolio companies;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of fluctuations in interest rates on our business;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- our ability to recover unrealized losses;
- market conditions and our ability to access additional capital, if deemed necessary;
- changes in interest rates and overall investment activity;
- developments in the global economy and resulting demand and supply for oil and natural gas;
- natural or man-made disasters and other external events that may disrupt our operations; and
- continued volatility of oil and natural gas prices.

There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this Quarterly Report, please see the discussion in Part II, "*Item 1A. Risk Factors*", and in Part I, "*Item 1A. Risk Factors*" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 ("10-K"). In particular, you should carefully consider the risks we have described in the 10-K and elsewhere in this Quarterly Report concerning our efforts to transform Equus into an operating company, as well as the coronavirus pandemic and the economic impact of the coronavirus on the Fund and our sole remaining portfolio company, as well as on oil and gas markets generally. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this Quarterly Report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date this Quarterly Report is filed with the SEC.

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

We elected to be treated as a BDC under the 1940 Act. We currently qualify as a RIC for federal income tax purposes and, therefore, are not required to pay corporate income taxes on any income or gains that we distribute to our stockholders. We have a wholly-owned Taxable Subsidiary which holds one of our portfolio investments listed on our Schedules of Investments. The purpose of this Taxable Subsidiary is to permit us to hold certain income-producing investments or portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross revenue for income tax purposes must consist of investment income. Absent the Taxable Subsidiary, a portion of the gross income of these income- producing investments or of any LLC (or other pass-through entity) portfolio investment, as the case may be, would flow through directly to us for the 90% test. To the extent that such income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and, therefore, cause us to incur significant federal income taxes. The income of the LLCs (or other pass-through entities) owned by Taxable Subsidiary is taxed to the Taxable Subsidiary and does not flow through to us, thereby helping us preserve our RIC status and resultant tax advantages. We do not consolidate the Taxable Subsidiary for income tax purposes and they may generate income tax expense because of the Taxable Subsidiary's ownership of the portfolio investment. We reflect any such income tax expense on our Statements of Operations.

Conversion to an Operating Company

Authorization to Withdraw BDC Election. In previous years, holders of a majority of the outstanding common stock of the Fund approved our cessation as a BDC under the 1940 Act and authorized our Board to cause the Fund's withdrawal of its election to be classified as a BDC, effective as of a date designated by the Board and our Chief Executive Officer. Although this authorization has since expired, we expect to receive a further authorization from our shareholders later in 2024 or in 2025 as a consequence of our expressed intent to transform Equus into an operating company. Notwithstanding any such authorization to withdraw our BDC election, we will not submit any such withdrawal unless and until Equus has entered into a definitive agreement to effect a transformative transaction. Further, even if we are again authorized to withdraw our election as a BDC, we will require a subsequent affirmative vote from holders of a majority of our outstanding voting shares to enter into any such definitive agreement or change the nature of our business. While we are presently evaluating various opportunities that could enable us to accomplish this transformation, we cannot assure you that we will be able to do so within any particular time period or at all, and, although we expect that our shareholders will grant a further authorization, we do not expect to cause the Fund to withdraw its election to be classified as BDC prior to September 30, 2024. Moreover, we cannot assure you that the terms of any such transformative transaction would be acceptable to us.

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Reduction in Asset Coverage Ratio

On November 14, 2019, our shareholders approved a reduction in our asset coverage ratio from 200% to 150%. Prior to the reduction, we were restricted in the amount that we could borrow to the value of our net assets. The reduction in our asset coverage from 200% to 150% means that we may now borrow up to twice the value of our net assets. Except for a margin loan that we have previously procured each quarter to acquire U.S. Treasury bills as part of the maintenance of our RIC status, we have not incurred any additional borrowings as a consequence of this authorization.

2016 Equity Incentive Plan

On June 13, 2016, our shareholders approved the adoption of our 2016 Equity Incentive Plan ("Incentive Plan"). On January 10, 2017, the SEC issued an order approving the Incentive Plan and certain awards intended to be made thereunder. The Incentive Plan is intended to promote the interests of the Fund by encouraging officers, employees, and directors of the Fund and its affiliates to acquire or increase their equity interest in the Fund and to provide a means whereby they may develop a proprietary interest in the development and financial success of the Fund, to encourage them to remain with and devote their best efforts to the business of the Fund, thereby advancing the interests of the Fund and its stockholders. The Incentive Plan is also intended to enhance the ability of the Fund and its affiliates to attract and retain the services of individuals who are essential for the growth and profitability of the Fund. The Incentive Plan permits the award of restricted stock as well as common stock purchase options. The maximum number of shares of common stock that are subject to awards granted under the Incentive Plan is 2,434,728 shares. The term of the Incentive Plan will expire on June 13, 2026. On March 17, 2017, we granted awards of restricted stock under the Plan to certain of our directors and executive officers in the aggregate amount of 844,500 shares. The awards were each subject to a vesting requirement over a 3-year period unless the recipient thereof was terminated or removed from their position as a director or executive officer without "cause", or as a result of constructive termination, as such terms are defined in the respective award agreements entered into by each of the recipients and the Fund. As of June 30, 2020, all awards granted under the Incentive Plan were fully vested. We account for share-based compensation using the fair value method, as prescribed by ASC 718. Accordingly, for restricted stock awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant and amortize the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term.

Critical Accounting Policies

See the Fund's Critical Accounting Policies from the disclosure set forth in the Fund's Annual Report on Form 10-K for the year ended December 31, 2023.

Current Market Conditions

Impact of Economic and Geopolitical Events on the Oil and Gas Sector. Beginning in the second quarter of 2022, crude prices began a steady decline following increases that were largely due to increased post-Covid demand and the buildup and subsequent invasion of Ukraine by Russian forces. Prices began to rise again in in the third quarter of 2023, retreated during the fourth quarter of 2023, and have increased significantly since the beginning of 2024 and stood at $82.83 as of June 30, 2024. Natural gas prices experienced high volatility in 2022 before collapsing in 2023 and have thereafter remained generally stable, finishing the second quarter of 2024 at $2.42 per MMBTU. Recent oil price stability and subsequent price increases have been significant factors in increased consolidation activity in the Permian Basin where Equus Energy holds most of its development rights, as well as in the Williston Basin region in North Dakota where Morgan holds its development rights. The U.S. Energy Information Administration has recently issued estimates of $82.03 and $83.88 for the average WTI price per barrel of oil for the years 2024 and 2025, respectively.

Operators of the leasehold interests held by Equus Energy have not yet undertaken significant capital expenditures, which could have a material adverse effect upon the operations and long-term financial condition of Equus Energy. To conserve existing cash resources or create additional cash resources during the next year, Equus Energy intends to either: (i) attempt to secure equity or debt financing from one or more institutional sources, which sources may include the Fund, a commercial lender, or other investors, (ii) request that its operators shut-in additional wells, (iii) sell certain of its oil and gas holdings, or (iv) undertake a combination of the foregoing. However, we cannot assure you that Equus Energy will be able to implement these plans successfully, or that such plans will generate sufficient liquidity to fund the operating expenses of Equus Energy over the next twelve-months.

Morgan has undertaken significant capital expenditures for oil and gas development during the third and fourth quarters of 2023. During 2024, Morgan undertook an additional $5.5 million in capital expenditures, principally consisting of accruals and additional costs related to the development of its initial two wells. The company is expected to incur additional capital expenditures related to drilling and completion of additional wells later in 2024.

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The U.S. Economy. U.S. GDP increased at an annualized rate of 2.8% in the second quarter of 2024, significantly above consensus estimates of 2.1% for the period. This followed an increase of 1.4% on an annualized basis for the first quarter of 2024. The principal drivers of the increase were increased consumer and government spending, as well as an increase in inventories. The Conference Board is projecting slow growth at approximately 1.0% in each of the third and fourth quarters of 2024 and increasing to near 2.0% for 2025. (*Sources: Bureau of Economic Analysis; The Conference Board*).

Employment and Housing. The U.S. added only 110,000 new jobs in July 2024, resulting in an increase in the unemployment rate to 4.3%, somewhat more than consensus expectations and raising concerns of a pending recession. The Congressional Budget Office is predicting a further increase to 4.7% before tapering off to 4.5% in 2025. Persistently high borrowing costs have constrained sales volumes of existing and new homes during 2023 and the first six months of 2024, although home prices continue to increase and have outpaced inflation. Recent negative economic data have resulted in downward pressure on mortgage rates, suggesting that acquisition and refinancing activity for 30-year mortgages will increase in the latter half of 2024 (*Sources: Bureau of Labor Statistics; Freddie Mac*).

Consumer Prices. After experiencing substantial increases in 2022 and into 2023, consumer price increases have significantly ebbed. As of June 30, 2024, the consumer price index was up 3.0% over the previous 12-month period, down from 3.3% in May 2024. Largely as a result of slowing of economic growth, most commentators are forecasting a decrease in the rate of inflation throughout the remainder of 2024 and into 2025. (*Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Trading Economics*).

Interest Rates. Principally as a response to rising prices, the Federal Reserve began a series of federal funds rate increases in May 2022 which continued for ten consecutive meetings of the Federal Open Market Committee until July 2023, which set the rate at 5.5%, the highest in 22 years. With decreases in the consumer price index and increases in the U.S. unemployment rate, most analysts are expecting at least a 25 basis point decrease in the Federal Funds rate at the next meeting of the Federal Open Market Committee in September 2024. (*Sources: Forbes; The Wall Street Journal*).

Mergers and Acquisitions. After two consecutive years of declines, global merger and acquisition activity has begun to increase, with $555 billion in aggregate deal values during the first quarter of 2024 and a similar amount ($552 billion) in the second quarter of 2024, representing 8,551 separate transactions. Some industry commentators are predicting that consolidations will continue to increase in 2024, particularly in the areas of healthcare, technology, and energy. Higher interest rates and lower deal volumes have kept valuation multiples at levels consistent with previous years, which is expected to facilitate increased transaction activity through the remainder of the year. (*Source: Pitchbook; S&P Global*).

Private Equity. Private equity activity, both in the U.S. and globally, slowed in 2022 and 2023 following the frenetic pace of 2020 and 2021. The first half of 2024, however showed a marked increase in aggregate deal value ($310 billion) as compared to the first half of 2023 ($250 billion), an increase of over 24%. Industry analysts are predicting artificial intelligence driven enterprises will top the list of acquisition priorities, along with energy infrastructure plays that benefit from federal incentives. (*Source: Statista; S&P Global*).

During the six months ended June 30, 2024, our net asset value increased from $3.55 per share to $3.66 per share, an increase of 3.1%. As of June 30, 2024, our common stock is trading at a 63.9% discount to our net asset value as compared to 59.2% as of December 31, 2023.

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

Liquidity and Capital Resources

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

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

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

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

We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We believe we have followed valuation techniques in a reasonably consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities.

It is possible the Fund will require loans, capital investment from one or more sources, or will be required to dispose of certain of its investments, to cover a potential cash shortfall. The Fund does not presently have any existing commitments to fund any such shortfall, should it occur, and cannot guarantee that it will be able to execute on such plans in the future.

Results of Operations

Investment Income and Expense

Net investment loss was relatively unchanged at $0.9 million and $2.0 million respectively, for the three and six months ended June 30, 2024 and ended June 30, 2023.

Compensation expense was $0.5 million and $0.4 million for the three months ended June 30, 2024 and 2023, respectively and $0.9 million and $0.8 million for the six months ended June 30, 2024 and 2023, respectively,

Professional fees were $0.4 million and $0.1 million for the three months ended June 30, 2024 and 2023, respectively and $0.9 million and $0.5 million for the six months ended June 30, 2024 and June 30, 2023 respectively. The increase was principally due to additional professional services and overall fee increases.

General and administrative expenses were $0.06 million and $0.04 million for the three months ended June 30, 2024 and June 30, 2023, respectively, and $0.1 million and $0.7 million for the six months ended June 30, 2024 and June 30, 2023, respectively.

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

During the six months ended June 30, 2024, we made a $2.2 million follow-on debt investment in Morgan E&P, LLC ("Morgan"). During this period, we also recorded an increase of $3.4 million in the fair value of our equity holding in Morgan. The increase was primarily due to the reclassification of a significant portion of Morgan's proved reserves as proved developed producing, as well as the acquisition of approximately 810 additional net acres.

During the six months ended June 30, 2024, with respect to our holding in Equus Energy, LLC, we recorded no change in the fair value of this investment.

During the six months ended June 30, 2023, we made a $0.75 million debt investment in Morgan and also invested $1.00 in the equity of Morgan. We recorded a change in fair value of the equity of Morgan of $6.8 million. The increase was principally due to our expectation of Morgan drilling new wells and generating operating cash flow therefrom in the near future in the Bakken shale region where it holds leasehold acreage rights.

During the six months ended June 30, 2023, with respect to our holding in Equus Energy, LLC, we recorded no change in the fair value of this investment.

Dividends

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

Subsequent Events

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

In July 2024, our holding in $54.0 million in U.S. Treasury Bills matured and we repaid our margin loan.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are subject to financial market risks, including changes in interest rates with respect to investments in debt securities and outstanding debt payable, as well as changes in marketable equity security prices. In the future, we may invest in companies outside the United States, including in Europe and Asia, which would give rise to exposure to foreign currency value fluctuations. We do not use derivative financial instruments to mitigate any of these risks. The return on investments is generally not affected by foreign currency fluctuations.

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

A major portion of our investment portfolio consists of debt and equity investments in private companies. Modest changes in public market equity prices generally do not significantly impact the estimated fair value of these investments. However, significant changes in market equity prices can have a longer-term effect on valuations of private companies, which could affect the carrying value and the amount and timing of gains or losses realized on these investments. A small portion of the investment portfolio could also consist of common stock in publicly traded companies. These investments are directly exposed to equity price risk, in that a hypothetical ten percent change in these equity prices would result in a similar percentage change in the fair value of these securities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Fund's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operations of the Fund's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2024. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Fund's disclosure controls and procedures were not effective due to the material weaknesses in internal control over financial reporting described below.

Material Weakness in Internal Control over Financing Reporting Existing as June 30, 2024

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management concluded that the previously disclosed material weakness relating to the Fund's controls relating to the design and operation of management review over the valuation of the Fund's portfolio investment, including management's review procedures over the completeness and accuracy of the underlying data and information supplied to third parties assisting management by recommending a range of reasonable fair values continued to exist as of June 30, 2024.

Although this material weakness did not result in a material misstatement of our consolidated financial statements for the periods then presented, there is a possibility that, had the material weakness continued undetected, it could have led to a material misstatement of portfolio fair values and related disclosures. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

Management believes that the financial statements included in this Quarterly Report on Form 10-Q present fairly in all material respects the Fund's financial condition, results of its operations, changes in its net assets and its cash flows for the periods presented. We believe that the consolidated financial statements included in this Quarterly Report on Form 10-Q are accurate.

We have begun the process of, and we are focused on, enhancing effective internal control measures to improve our internal control over financial reporting and remediate the material weaknesses. Our internal control remediation efforts include the following:

- Enhancing existing controls that address the completeness and accuracy of underlying data and information supplied to third parties assisting management in its determination of fair value and in the performance of management review controls over the valuation of the Fund's portfolio securities; and

- Enhancing policies and procedures to improve the precision of review and evidence of review procedures performed to demonstrate effective design and operation of such controls.

We believe our planned actions to enhance our processes and controls will address the material weakness, but these actions are subject to ongoing management evaluation, and we will need a period of execution to demonstrate remediation. We are committed to the continuous improvement of our internal control over financial reporting and will continue to diligently review our internal control over financial reporting.

There were no other changes in our internal control over financial reporting during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In connection with our efforts to convert Equus into an operating company in furtherance of our plan to convert the Fund into an operating company, we may be subject to a number of risks associated with this process, the transactions that would embody a consolidation of Equus with another company, as well as specific risks associated with the commercial enterprise with which Equus may seek to combine itself. We intend to identify, as will be reasonably possible, such risks and include the same in our subsequent filings and reports with the SEC.

Readers should carefully consider these risks and all other information contained in our annual report on Form 10-K ("10-K") for the year ended December 31, 2023, including the Fund's financial statements and the related notes thereto. The risks and uncertainties described in our 10-K and throughout this 10-Q are not the only ones facing the Fund.

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

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Item 6. Exhibits

3. Articles of Incorporation or Bylaws

(a) Restated Certificate of Incorporation of the Fund. [Incorporated by reference to Exhibit 3(a) to Registrant's Current Report on Form 8-K filed on January 21, 2021]

(b) Certificate of Merger, dated June 30, 1993, between the Fund and Equus Investments Incorporated [Incorporated by reference to Exhibit 3(b) to Registrant's Annual Report on form 10-K for the year ended December 31, 2007]

(c) Amended and Restated Bylaws of the Fund [Incorporated by reference to Exhibit 3(c) to Registrant's Current Report on Form 8-K filed on June 30, 2014]

10. Material Contracts

(a) Safekeeping Agreement between the Fund and Amegy Bank, dated August 16, 2008. [Incorporated by reference to Exhibit 10(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008]

(b) Form of Indemnification Agreement between the Fund and its directors and certain officers. [Incorporated by reference to Exhibit 10(d) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011]

(c) Code of Ethics of the Fund (Rule 17j-1). [Incorporated by reference to Exhibit 10(f) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009]

(d) 2016 Equity Incentive Plan, adopted June 13, 2016. [Incorporated by reference to Exhibit 1 to Registrant's Definitive Proxy Statement filed on May 5, 2016]

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

1. Certification by Chief Executive Officer*

2. Certification by Chief Financial Officer*

32. Rule 1350 Certifications

1. Certification by Chief Executive Officer*

2. Certification by Chief Financial Officer*

97. Policy Relating to Recovery of Erroneously Awarded Compensation.

1. Equus Total Return, Inc. Compensation Recoupment Policy [Incorporated by reference to Exhibit 97.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2023]

* Filed herewith

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SIGNATURE

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

Dated: August 19, 2024

EQUUS TOTAL RETURN, INC.

/s/ John A. Hardy

John A. Hardy
Chief Executive Officer

EXHIBIT 31.1

Form of Quarterly Certification Required
by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, John A. Hardy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Equus Total Return, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
   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 first fiscal quarter in the case of a quarterly 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 officers 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.

Dated: August 19, 2024

EQUUS TOTAL RETURN, INC.

/s/ John A. Hardy

John A. Hardy
Chief Executive Officer

EXHIBIT 31.2

Form of Quarterly 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 Quarterly Report on Form 10-Q of Equus Total Return, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
   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 first fiscal quarter in the case of a quarterly 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 officers 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.

Dated: August 19, 2024

EQUUS TOTAL RETURN, INC.

/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 Quarterly Report of Equus Total Return, Inc. (the "Fund") on Form 10-Q for the quarter ended June 30, 2024 (the "Report"), I, John A Hardy, 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 Fund.

Dated: August 19, 2024

EQUUS TOTAL RETURN, INC.

/s/ John A. Hardy

John A. Hardy
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 Quarterly Report of Equus Total Return, Inc. (the “Fund”) on Form 10-Q for the quarter ended June 30, 2024 (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 Fund.

Dated: August 19, 2024

EQUUS TOTAL RETURN, INC.

/s/ L’Sheryl D. Hudson

L’Sheryl D. Hudson
Chief Financial Officer