

EQUUS TOTAL RETURN, INC.
Form DEF 14A
April 27, 2007

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by Party other than the Registrant

Check the appropriate box:

- Preliminary proxy statement Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- Definitive proxy statement
- Definitive additional materials
- Soliciting materials pursuant to Rule 14a-11(c) or Rule 14a-12

EQUUS TOTAL RETURN, INC.

(Name of Registrant as Specified in Its Charter)

Kenneth I. Denos, 2727 Allen Parkway, 13th Floor, Houston, TX 77019

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount Previously Paid:

(2) Form, Schedule, or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notice of the 2007

Annual Meeting of Stockholders

Meeting Date: June 14, 2007
Meeting Time: 9:00 a.m., CDT
Location: Meeting Room 2, Ground Level
Wortham Tower
2727 Allen Parkway
Houston, Texas 77019

Agenda

To elect 9 directors, each for a term of one year; and

To transact such other business as may properly come before the annual meeting.

Voting

All holders of record of shares of the Fund's common stock (NYSE: EQS) at the close of business on April 23, 2007 (the Record Date), or their legal proxy holders, are entitled to vote at the meeting and any postponements or adjournments of the meeting.

Please submit a proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy by mail. For specific instructions, please refer to the Questions and Answers in this proxy statement and the instructions on the proxy card.

We are distributing this proxy statement and proxy form to stockholders on or about May 1, 2007.

By order of the Board of Directors,

KENNETH I. DENOS

Secretary

April 25, 2007

Houston, Texas

WORTHAM TOWER

2727 ALLEN PARKWAY

THIRTEENTH FLOOR

HOUSTON, TX 77019

TEL: (713) 529-0900

FAX: (713) 529-9545

EQUUS TOTAL RETURN, INC.

2727 Allen Parkway, 13th Floor

Houston, Texas 77019

PROXY STATEMENT

This proxy statement contains information relating to the annual meeting of Equus Total Return, Inc. (**EQS** or the **Fund**). The meeting will be held on Thursday, June 14, 2007, beginning at 9:00 a.m., Central Daylight Time, at Meeting Room 2, Ground Level, Wortham Tower, 2727 Allen Parkway, Houston, Texas 77019, and at any postponement or adjournment thereof. The Board of Directors is sending stockholders this proxy statement to solicit proxies to be voted at the annual meeting. It is being mailed to stockholders on or about May 1, 2007.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At the annual meeting, stockholders will act upon the election of directors (see Proposal 1). In addition, the Fund's management will report on the performance of the Fund during 2006 and respond to questions from stockholders.

What are the Board's recommendations?

The Board recommends a vote **For** the election of the nominated slate of directors (see Proposal 1). Unless you give other instructions on your signed proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board. With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

What vote is required to approve the election of directors?

The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. A properly executed proxy marked **Withheld** with respect to the election of one or more directors will not be voted **For** the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum. The nine persons receiving the highest number of **For** votes will be elected.

Broker Non-Votes. If you hold shares in street name through a broker, bank, or other nominee, your broker, bank, or nominee may be permitted to exercise voting discretion with respect to the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares will be voted **For** election of the director nominees.

Adjournment. The chairman of the meeting or the holders of a majority of the shares of the Fund, present in person or represented by proxy, although not constituting a quorum, may adjourn the meeting. If a vote is required to adjourn the meeting, the persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against the proposal for which an adjournment is sought.

How are votes counted?

In the election of directors, you may vote **For** all of the nominees or your vote may be **Withheld** with respect to one or more of the nominees. If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of the Board.

Who is entitled to vote at the meeting?

If you owned shares of the Fund on the Record Date, you are entitled to receive notice of and to participate in the annual meeting. A list of stockholders on the Record Date will be available for inspection at the Fund's office at 2727 Allen Parkway, 1st Floor, Houston, Texas for ten days before the meeting.

What are the voting rights of holders of the Fund's common stock?

You may cast one vote per share of the Fund's common stock that you held on the Record Date on each proposal considered at the annual meeting. These shares include shares that are: (1) held directly in your name as the stockholder of record and (2) held for you as the beneficial owner through a stockbroker, bank, or other nominee.

Who can attend the meeting?

All stockholders as of the Record Date, or their duly appointed proxies, may attend the meeting. Each stockholder may be asked to present valid identification. Cameras, recording devices, and other electronic devices will not be permitted at the meeting.

Please note that if you hold your shares in street name (that is, through a broker, bank, or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the Record Date.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the Record Date will constitute a quorum, permitting the meeting to conduct its business. As of the Record Date, 8,216,899 shares of the Fund's common stock, representing the same number of votes, were outstanding.

Proxies received but marked as abstentions or withheld and broker non-votes that are voted on any matter will be included in the calculation of the number of shares considered to be present at the meeting.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Many stockholders of the Fund hold their shares through a stockbroker, bank or, other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name with the Fund's transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent directly to you by the Fund. As the stockholder of record, you have the right to grant your voting proxy directly to the Fund or to vote in person at the annual meeting. We have enclosed a proxy card for you to use.

Beneficial Owner. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker on how to vote and are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the annual meeting. Your broker or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares.

How can I vote my shares in person at the annual meeting?

Shares held directly in your name as the stockholder of record may be voted in person at the annual meeting. If you choose to do so, please bring the enclosed proxy card or proof of identification. Even if you plan to attend the annual meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting. Shares held in street name may be voted in person by you only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

How can I vote my shares without attending the annual meeting?

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct your vote without attending the annual meeting by completing and mailing your proxy card or voting instruction card in the enclosed pre-paid envelope. Please refer to the enclosed materials for details.

Can I change my vote after I return my proxy card?

Yes. You may change your proxy instructions at any time prior to the vote at the annual meeting. You may accomplish this by granting a new proxy card or new voting instruction card bearing a later date (which automatically revokes the earlier proxy instructions) or by attending the annual meeting and voting in person. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

What does it mean if I receive more than one proxy or voting instruction card?

It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Where can I find the voting results of the annual meeting?

We will announce preliminary voting results at the annual meeting and publish the final results in our quarterly report on Form 10-Q for the quarter ended June 30, 2007.

Who can I call if I have a question?

If you have any questions about this proxy statement, please call us at 713-529-0900 between 9:00 a.m. and 5:00 p.m., Central Daylight Time, Monday through Friday.

STOCK OWNERSHIP

Who are the largest owners of the Fund's stock?

Based on a review of filings with the Securities and Exchange Commission (SEC), the Fund is aware of two beneficial owners of more than 5% of the outstanding shares of the Fund's common stock: (i) MCC Europe Limited (MCCE), Moore, Clayton & Co., Inc. (MCC), Anthony R. Moore and Sharon Clayton and (ii) Sam P. Douglass.

How much stock do the Fund's directors and executive officers own?

The following table shows the amount of the Fund's common stock beneficially owned (unless otherwise indicated) as of March 31, 2007, by (1) any person known to the Fund to be the beneficial owner of more than 5% of the outstanding shares of the Fund's common stock, (2) each director/director nominee of the Fund, (3) each named executive officer, and (3) all directors/director nominees and executive officers as a group.

The number of shares beneficially owned by each entity, person, director/director nominee, or executive officer is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the entity or individual has sole or shared voting power or investment power and also any shares that the entity or individual had the right to acquire as of March 31, 2007, or within 60 days after March 31, 2007, through the exercise of any stock option or other right. Unless otherwise indicated, to our knowledge each individual has sole investment and voting power, or shares such powers with his spouse, with respect to the shares set forth in the table.

Name	Sole Voting and Investment Power	Other Beneficial Ownership	Total	Percent of Class Outstanding ⁽¹⁾
MCCE, MCC, Anthony R. Moore, Sharon Clayton ⁽²⁾	1,463,013 ⁽³⁾		1,463,013	17.8%
Sam P. Douglass ⁽⁴⁾	22,815	428,381 ⁽⁵⁾	451,196	5.49%
Richard F. Bergner				
Charles M. Boyd, M.D.	1,098		1,098	*
Alan D. Feinsilver	20,309		20,309	*
Gregory J. Flanagan	12,000		12,000	*
Henry W. Hankinson				
Robert L. Knauss	2,420	702 ⁽⁶⁾	3,122	*
Dr. Francis D. Tuggle	6,093		6,093	*
L. Sheryl D. Hudsoff ⁽⁷⁾				
All directors/director nominees and executive officers as a group (14 persons)	1,541,907	429,083	1,970,990	23.99%

* Indicates less than one percent.

- (1) Based on 8,216,899 shares of the Fund's common stock, par value \$.001 per share, outstanding as of March 31, 2007. There are no options, warrants, rights or conversion privileges outstanding with respect to the Fund's common stock.
- (2) The address of MCCE is 14 Hay's Mews, London W1J 5PT, United Kingdom. The address of MCC is 10757 South River Front Parkway, Suite 125, South Jordan, Utah 84095. Mr. Moore's and Ms. Clayton's business address is 2727 Allen Parkway, 11th Floor, Houston, Texas 77019. Mr. Moore and Ms. Clayton are principal shareholders of MCC Global NV which is the parent company of MCC. MCC is the parent company of, among other entities, MCCE and Moore, Clayton Capital Advisors, Inc., the Fund's investment adviser. The number of shares beneficially owned by MCCE, MCC, Mr. Moore and Ms. Clayton is based on the Schedule 13D/A they filed jointly on March 8, 2006.
- (3) 1,177,283 shares are subject to pledge agreements executed by MCC, MCCE and Manchester Securities Corp. in connection with promissory notes issued by MCC to Manchester Securities Corp. In addition,

- 479,846 shares are subject to pledge agreements executed in connection with the sale of Equus Corporation International's (ECI) interest in Equus Capital Management Corporation, the Fund's former investment adviser, to MCC. Specifically, 383,877 shares are pledged or are agreed to be pledged to trusts for the benefit of members of Mr. Douglass' family and 95,969 shares are pledged to Lehmann Investments, LP. The Douglass family trusts and Lehmann Investments, LP were shareholders of ECI.
- (4) Mr. Douglass' business address is 2727 Allen Parkway, 1st Floor, Houston, Texas 77019.
 - (5) Includes (a) 33,150 shares held directly and in retirement accounts by Paula T. Douglass, an officer of the Fund and Mr. Douglass' spouse and (b) 395,231 shares held by trusts for the benefit of members of Mr. Douglass' family, of which Mr. Douglass is the trustee and a lifetime beneficiary, a trust of which Mr. Douglass is the beneficiary, and a trust of which Ms. Douglass is the beneficiary. Mr. Douglass disclaims beneficial ownership of all shares not directly owned by him.
 - (6) Includes 702 shares held by the Robert L. Knauss Defined Plan (the Knauss Plan) of which Mr. Knauss is a control person. Mr. Knauss disclaims beneficial ownership of the shares held by the Knauss Plan.
 - (7) Ms. Hudson serves as the Fund's Vice President, Chief Financial Officer and Chief Compliance Officer. Ms. Hudson is not a director or director nominee.

Section 16(a) beneficial ownership compliance

Under the federal securities laws, our directors, executive officers, and any persons beneficially owning more than ten percent of our common stock are required to report their ownership of our common stock and any changes in that ownership to the Fund and the SEC. Specific due dates for these reports have been established by regulation. Based solely upon a review of reports furnished to the Fund and written representations of certain persons that no other reports were required, we believe that all of our directors and executive officers complied during 2006 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act), with the exception of L. Sheryl D. Hudson and Paula T. Douglass who did not file a Form 3 Initial Statement of Beneficial Ownership of the Fund's securities within the 10-day period specified in the Form.

GOVERNANCE OF THE FUND

What are the duties of the Board of Directors?

The Board provides overall guidance and supervision with respect to the operations of the Fund and performs the various duties imposed on the directors of business development companies by the Investment Company Act of 1940 (the 1940 Act). Among other things, the Board supervises the management arrangements of the Fund, the custodial arrangements with respect to portfolio securities, the selection of accountants, fidelity bonding, and transactions with affiliates.

All actions taken by the Board are taken by majority vote unless a higher percentage is required by law or unless the 1940 Act or the Fund's certificate of incorporation or by-laws require that the actions be approved by a majority of the directors who are not interested persons (as defined in the 1940 Act) of the Fund referred to as independent directors. The 1940 Act requires that a majority of the Fund's directors be independent directors. In addition, in order to rely on Section 15(f) of the 1940 Act, which provides a safe harbor for an investment adviser to an investment company or any of the investment adviser's affiliated persons (as defined under the 1940 Act) to receive any amount or benefit in connection with a change in control of the investment adviser, certain conditions must be met, one of which is that for a period of three years after the transaction, at least 75% of the Board members of the investment company must not be interested persons of the investment company's investment adviser or its predecessor adviser. Stockholders of the Fund approved the Fund's investment advisory agreement with Moore, Clayton Capital Advisors, Inc. (MCCA) on June 30, 2005. The Fund has undertaken to comply with the requirements of Section 15(f), and therefore 75% of the Board may not be interested persons with respect to MCCA or the Fund's predecessor adviser for a period of three years following June 30, 2005.

Who are the current members of the Board?

The members of the Board of Directors on the date of this proxy statement and the committees of the Board on which they serve, are identified below.

Director	Audit Committee	Compensation Committee	Committee of Independent Directors	Governance and Nominating Committee
Richard F. Bergner			*	Chair
Charles M. Boyd, M.D.		Chair	*	*
Sam P. Douglass				
Alan D. Feinsilver	Chair		*	
Gregory J. Flanagan			*	*
Henry W. Hankinson	*		*	
Robert L. Knauss	*		Chair	
Anthony R. Moore				
Dr. Francis D. Tuggle	*	*	*	

What committees has the Board established?

The Board has five standing committees: an Audit Committee, a Governance and Nominating Committee, a Compensation Committee and a Committee of Independent Directors.

Audit Committee

The charter of the Audit Committee is available on the Fund's website (www.equuscap.com). The Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its duties. The Committee's meetings include, whenever appropriate, executive sessions with the Fund's independent registered public accounting firm without the presence of management. Each member of the Audit Committee is an independent director within the meaning of SEC regulations and the listing standards of the New York Stock Exchange (NYSE). The Committee met 5 times during 2006.

The charter of the Audit Committee specifies that the purpose of the Audit Committee is to assist the Board in its oversight of the integrity of:

The Fund's financial statements;

The Fund's compliance with legal and regulatory requirements;

The independence and qualifications of the Fund's independent registered public accounting firm; and

The performance of the Fund's internal audit function and independent registered public accounting firm. In furtherance of the foregoing purpose, the Committee's authority and responsibilities include to:

Review and oversee the Fund's annual and quarterly financial statements;

Recommend, for shareholder approval, the appointment of the Fund's independent registered public accounting firm, and oversee the compensation, retention, oversight, and other matters relating to the engagement or discharge of the independent registered public

accounting firm;

Oversee the Fund's financial controls and reporting processes;

Review the Fund's financial reporting and accounting standards and principles;

Review the performance of the Fund's internal audit function and the performance of the independent registered public accounting firm;

Review and investigate any matters pertaining to the integrity of management, including conflicts of interest or adherence to standards of business conduct; and

Establish procedures for handling complaints involving accounting, internal accounting controls, and auditing matters.

Report of the Audit Committee

As part of its oversight of the Fund's financial statements, the Committee reviews and discusses with both management and the Fund's independent registered public accounting firm all annual and quarterly financial statements prior to their issuance. During 2006, management advised the Committee that each set of financial statements reviewed had been prepared in accordance with accounting principles generally accepted in the United States, and reviewed significant accounting and disclosure issues with the Committee. These reviews included discussions with UHY LLP, the Fund's independent registered public accounting firm, of matters required to be disclosed pursuant to Statement of Auditing Standards No. 61 (*Communication with Audit and Finance Committees*), including the quality of the Fund's accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Committee also discussed with UHY LLP matters relating to its independence, including a review of audit and non-audit fees and the written disclosure required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committee*).

Based on the review and discussions noted above, the Audit Committee recommended to the Board the inclusion of the Fund's audited financial statements for the year ended December 31, 2006, in the Fund's Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the SEC. The Audit Committee also recommended to the Board the selection of UHY LLP as the Fund's independent registered public accounting firm for fiscal 2007.

The members of the Audit Committee are Alan D. Feinsilver, Henry W. Hankinson, Robert L. Knauss and Dr. Francis D. Tuggle. Alan D. Feinsilver, the chair of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE.

Committee of the Independent Directors

The functions of the Committee of the Independent Directors are to: recommend to the full Board approval of any management, advisory, or administration agreements; recommend to the full Board any underwriting or distribution agreements; review the fidelity bond and premium allocation; review any joint insurance policies and premium allocation; review and monitor the Fund's compliance with procedures adopted pursuant to certain rules promulgated under the 1940 Act; and carry out such other duties as the independent directors shall, from time to time, conclude are necessary in the performance of their duties under the 1940 Act.

The Committee of Independent Directors met at regularly scheduled Board Meetings in executive sessions without any members of management present and Robert L. Knauss, the chair of the Committee, presided at such sessions. Each member of the Committee is an independent director within the meaning of SEC regulations and the listing standards of the NYSE.

Compensation Committee

The charter of the Compensation Committee is available on the Fund's website (www.equuscap.com). Each member of the Committee is an independent director within the meaning of SEC regulations and the listing standards of the NYSE. The Committee met 2 times during 2006.

The Compensation Committee is responsible for reviewing and evaluating the compensation of the Fund's investment adviser, and together with the other independent directors of the Board, determining and approving the adviser's compensation. Although the Fund does not directly compensate its officers or employees currently, to the extent the Fund does so in the future, the Committee would be responsible for reviewing and evaluating their compensation, and in the case of the Fund's chief executive officer, determining and approving his compensation together with the other independent directors of the Board. In the case of other officers and employees of the Fund, the Committee would make recommendations to the Board regarding their compensation. In addition, the Committee periodically reviews director compensation and recommends any appropriate changes to the Board. Lastly, the Committee produces a report on the Fund's executive compensation practices and policies for inclusion in the Fund's proxy statement if required by applicable proxy rules and regulations and makes recommendations to the Board on the Fund's executive compensation practices and policies. The Committee may not delegate its responsibilities to one or more Committee members.

Compensation Discussion and Analysis and Report of the Compensation Committee

During 2006, the Fund did not directly compensate, and does not currently compensate, its officers or employees. As a result, a *Compensation Discussion and Analysis* regarding executive compensation has not been prepared or recommended for inclusion in this proxy statement. The members of the Committee are Charles M. Boyd, M.D, the chair of the Committee, and Dr. Francis D. Tuggle.

Compensation Committee Interlocks and Insider Participation

In 2006, the Board asked James M. Walsh, then a director of the Fund and member of the Compensation Committee, to provide financial advisory services to the Fund in connection with a possible public offering of the Fund's equity securities. Mr. Walsh is the managing principal of Walsh Advisors, LLC, a consulting firm. Mr. Walsh has more than 34 years experience in the investment banking business.

In light of the proposed arrangement, Mr. Walsh resigned from the Board (including the Committee) on November 14, 2006. Following Mr. Walsh's resignation, the Fund entered into a formal consulting agreement (the "Walsh Agreement") with Walsh Advisors, LLC. Pursuant to the Walsh Agreement, Walsh Advisors served as a financial advisor to the Fund. Walsh Advisors consulted with the Fund and coordinated with an investment banking firm that may act as the lead underwriter in connection with a possible public offering. For the services provided under the Walsh Agreement, the Fund paid Walsh Advisors a fee of \$75,000 on November 15, 2006 for services rendered from the period of July 15, 2006 through October 15, 2006, and paid a fee of \$25,000 monthly thereafter until January 15, 2007. The Walsh Agreement was subsequently extended for a two-month time period with the same compensation, terms, and conditions until March 14, 2007.

The Board, including the independent directors voting separately, approved the Walsh Agreement. Among other things, the directors considered, evaluated and determined whether: (a) the Walsh Agreement was in the best interest of the Fund and its stockholders; (b) the services to be performed pursuant to the Walsh Agreement were services required for the operation of the Fund; (c) Walsh Advisors could provide services the nature and quality of which were at least equal to those provided by unaffiliated third parties offering the same or similar services; and (d) the fees for such services were fair and reasonable in light of the usual and customary charges made by others for services of the same nature and quality.

Governance and Nominating Committee

The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance. The Committee selects individuals for nomination to the Board of Directors of the Fund. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. The charter of the Governance and Nominating Committee is available on the Fund's website (www.equuscap.com). The Committee met 2 times during 2006.

All of the members of the Committee are independent directors within the meaning of SEC regulations and the listing standards of the NYSE.

How does the Board select nominees for the Board?

The Governance and Nominating Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. A stockholder who wishes to recommend a prospective nominee for the Board should notify the Fund's Secretary or any member of the Governance and Nominating Committee in writing in care of Equus Total Return, Inc., 2727 Allen Parkway, 13th Floor, Houston, Texas 77019. To be considered by the Nominating and Governance Committee, stockholder nominations must be submitted before our fiscal year-end and must be accompanied by a description of the qualifications of the proposed candidate and a written statement from the proposed candidate that he or she is willing to be nominated and desires to serve if elected. The Governance and Nominating Committee will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Fund's by-laws relating to stockholder nominations as described in *Additional Information Stockholder Proposals for the 2008 Annual Meeting*, below. Nominees for director who are recommended by stockholders will be evaluated in the same manner as any other nominee for director.

Once the Governance and Nominating Committee has identified a prospective nominee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors considered by the Committee. If the Committee determines, in consultation with the other Board members as appropriate, that additional consideration is warranted, it may gather additional information about the prospective nominee's background and experience. The Chairman of the Committee and our Chairman of the Board will then interview a qualified candidate. A qualified candidate is then invited to meet the remaining members of the Committee and the other directors. The Committee then determines, based on the background information and information obtained in interviews, whether to recommend to the Board that a candidate be nominated to the Board.

The Committee believes a prospective nominee for director should, at a minimum, satisfy the following standards and qualifications and evaluates prospective nominees accordingly:

The ability of the prospective nominee to represent the interests of the stockholders of the Fund;

The prospective nominee's standards of integrity, commitment, and independence of thought and judgment;

The prospective nominee's ability to dedicate sufficient time, energy, and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards; and

The extent to which the prospective nominee contributes to the range of talent, skill, and expertise appropriate for the Board. The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, and the need for Audit Committee expertise. After completing this evaluation and interview, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

How does the Board determine which directors are considered independent?

When the Board undertook its annual review of director independence, the Board considered transactions and relationships between each director or any member of his immediate family and the Fund. The Board also

examined transactions and relationships between directors or their affiliates and members of the Fund's senior management or their affiliates. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that all of the directors nominated for election at the annual meeting are independent of the Fund and its management with the exception of Sam P. Douglass and Anthony R. Moore. Messrs. Douglass and Moore are considered interested directors because of their employment as senior executives of the Fund or its investment adviser, MCCA.

How often did the Board meet during 2006?

During 2006, the Board met 11 times. Each director attended at least 75% of all meetings held by the Board or the committees of the Board on which he served. The Fund does not have a policy about directors' attendance at the annual meeting of stockholders. All directors attended the Fund's annual meeting of stockholders in June 2006.

How are directors compensated?

During 2006, each independent director received: (i) \$5,000 for each quarter served on the Fund's Board plus \$2,000 for each meeting of the directors attended; (ii) \$1,000 for participation in each meeting conducted by telephonic conference; (iii) \$1,000 for each committee meeting attended; and (iv) reimbursement for all out-of-pocket expenses relating to attendance at such meetings.

Interested directors of the Fund do not receive any cash compensation from the Fund. However, interested directors of the Fund may serve as directors of portfolio companies and in such capacities may receive and retain directors' fees and other compensation directly from the portfolio companies.

Directors who were not officers of the Fund (including those who only served on the Board for part of a year) were paid an aggregate of \$391,500 and \$363,000 as compensation for serving as directors of the Fund for the years ended December 31, 2006 and 2005, respectively. The following table set forth compensation paid by the Fund to each person who served as a director during 2006:

2006 Director Compensation Table

Name	Fees Earned or Paid in Cash (\$)	All Other Compensation (\$)	Total (\$)
Independent Directors			
Richard F. Bergner	47,000		47,000
Charles M. Boyd, M.D.	48,000		48,000
Alan D. Feinsilver	54,000		54,000
Gregory J. Flanagan	49,000		49,000
Henry W. Hankinson	46,000		46,000
Robert L. Knauss	55,000		55,000
Dr. Francis D. Tuggle	52,000		52,000
James M. Walsh ⁽¹⁾	40,500	125,000 ⁽²⁾	165,500
Interested Directors			
Anthony R. Moore			
Sam P. Douglass			(3)

(1) Mr. Walsh resigned from the Board on November 14, 2006.

(2) Following Mr. Walsh's resignation from the Board, the Fund entered into a formal consulting agreement (the "Walsh Agreement") with Walsh Advisors, LLC. Pursuant to the Walsh Agreement, Walsh Advisors

served as a financial advisor to the Fund. Walsh Advisors consulted with the Fund and coordinated with an investment banking firm that may act as the lead underwriter in connection with a possible public offering. For the services provided under the Walsh Agreement, the Fund paid Walsh Advisors a fee of \$75,000 on November 15, 2006 for services rendered from the period of July 15, 2006 through October 15, 2006, and paid a fee of \$25,000 monthly thereafter until January 15, 2007. The Walsh Agreement was subsequently extended for a two-month time period with the same compensation, terms, and conditions until March 14, 2007. The Director Compensation Table does not include \$75,000 paid to Mr. Walsh in 2007 pursuant to the Walsh Agreement.

- (3) In connection with consummating the sale of the Fund's interest in Champion Window Holdings, Inc., Mr. Douglass was paid \$50,000 in January 2006 for services rendered in 2005. Mr. Douglass was a director of Champion Window Holdings, Inc. at the time of the sale. This compensation amount was previously disclosed in the Fund's proxy statement for the 2006 annual meeting.

Who are the executive officers of the Fund?

The name, address and age of each executive officer, their position, term of office and length of time served with the Fund, along with certain business information, are set forth in the table below.

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Anthony R. Moore; 2727 Allen Parkway, 13 th Floor Houston, Texas 77019 Age: 61	Co-Chairman of the Board, President and CEO	One year as Co-Chairman and indefinite terms as President and CEO; Co-Chairman since 2005; President and CEO since 2005	Co-Chairman, President and CEO of the Fund since June 2005. Mr. Moore currently serves as the Chairman of the Supervisory Board of MCC Global NV (indirect parent company of the Fund's investment adviser). Mr. Moore has also served as Non-Executive Chairman of the Board of ValiRX Plc (biopharmaceutical company) since October 2006. Mr. Moore was Co-Founder and Executive Chairman of the Board of Moore, Clayton & Co., Inc. (parent company of the Fund's investment adviser) from July 1999 until April 2007. From February 2005 until February 2006, he served as Executive Deputy Chairman of MCC Energy plc (now Tersus Energy plc) (renewable and alternative energy investment vehicle). From April 1998 until June 1999, Mr. Moore was President and CEO of New Energy Technologies, part of New Energy Venture, Inc., an energy service provider which was sold to AEX Corp. in August 1999. From 1992 to 1998, he served as CEO of Global Investment Services and subsequently as Chairman of Corporate Finance at Barclays de Zoete Wedd, the investment banking arm of Barclays Bank plc, which was sold to Credit Suisse First Boston in March 1998. From 1991 to 1992, he served on the Board of Bankers Trust International. From 1982 to 1991, he held various senior positions with Goldman Sachs & Co., including Head of Investment Banking in Tokyo, Managing Director of Goldman Sachs Asia in Hong Kong, and Executive Director responsible for large corporate clients in London.

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Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Sam P. Douglass;* 2727 Allen Parkway, 13 th Floor Houston, Texas 77019 Age 74	Co-Chairman of the Board	One year as Co-Chairman; Chairman and CEO from 1991 to 2005; Co-Chairman since 2005	Co-Chairman of the Board of the Fund since June 2005 and Chairman and CEO of the Fund from 1991 to 2005. Since June 2005, Mr. Douglass has served as President of Moore, Clayton Capital Advisors, Inc. (Fund's investment adviser) and Equus Capital Administration Company, Inc. (Fund's administrator). From 1980 to 2005, Mr. Douglass was Chairman of the Board and CEO of Equus Capital Management Corporation (Fund's former investment adviser). From 1964 to 1975, he co-founded and served as President and a director of Service Corporation International, one of the largest funeral services company in the world trading on the NYSE. In 1978, Mr. Douglass co-founded and served as President of Wedge International, Inc., a privately-owned corporation which participated in the acquisition and management of mostly private companies. In 1980, he co-founded and served as President of Summit Resources Corporation, a privately-owned leverage buyout corporation. Since December 1978, Mr. Douglass has served as Chairman and CEO of Equus Corporation International, a privately owned corporation engaged in a variety of investment activities. Mr. Douglass has originated, structured or participated in over 200 acquisition transactions.
Sharon Clayton; 2727 Allen Parkway, 13 th Floor Houston, Texas 77019 Age 43	Vice Chairman	Indefinite term; Vice Chairman since 2005	Vice Chairman of the Fund since June 2005. Ms. Clayton has served as Chairman of the Management Board of MCC Global NV since May 2006 and Co-Chairman of the Board of Moore, Clayton & Co., Inc. since August 1999. Ms. Clayton was also Co-Founder and Co-CEO of Moore, Clayton & Co., Inc. from August 1999 until April 2007.
Kenneth I. Denos; 2727 Allen Parkway, 13 th Floor Houston, Texas 77019 Age 39	Executive Vice President and Secretary	Indefinite terms; Executive Vice President and Secretary since 2005	Executive Vice President and Secretary of the Fund since June 2005. Mr. Denos has served as CEO of MCC Global NV since May 2006 and as a director of Moore, Clayton & Co., Inc. since January 2001. From November 2005 until May 2006, Mr. Denos served as the Non-Executive Chairman of Ridgecrest Healthcare Group, Inc. From February 2005 to February 2006, he served as a director and General Counsel of MCC Energy plc (now Tersus Energy plc). Since April 1999, he has also served as Chairman and CEO of SportsNuts, Inc. (sporting event coordinator). Since March 2007, Mr. Denos has served as a non-executive director of Secure Networks, Inc., an information technology hardware and software reseller. Since January 2002, he has also served as President of Kenneth I. Denos, P.C.
Gary L. Forbes; 2727 Allen Parkway, 13 th Floor Houston, Texas 77019 Age 63	Senior Vice President	Indefinite term; Senior Vice President since 2005 and Vice President from 1992 to 2005	Senior Vice President of the Fund since 2005 and Vice President of the Fund from 1992 to 2005. From 1991 to 2005, Mr. Forbes was Vice President of Equus Capital Management Corporation.

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Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
L. Sheryl D. Hudson; 2727 Allen Parkway, 13 th Floor Houston, Texas 77019	Vice President, Chief Financial Officer and Chief Compliance Officer	Indefinite terms; Vice President and Chief Financial Officer since 2006; Chief Compliance Officer since 2007	Vice President and Chief Financial Officer of the Fund since November 2006 and Chief Compliance Officer of the Fund since April 2007. Ms. Hudson was named Vice President, Chief Financial Officer, Chief Compliance Officer and a director of Moore, Clayton Capital Advisors, Inc. and a d
Age: 42			