

EQUUS TOTAL RETURN, INC.
Form 10-Q
May 16, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period _____ to _____

Commission File Number 814-00098

EQUUS TOTAL RETURN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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Eight Greenway Plaza, Suite 930 Houston, Texas 77046
(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller Reporting Company ☐

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

There were 10,561,646 shares of the registrant's common stock, \$.001 par value, outstanding, as of May 16, 2011.

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EQUUS TOTAL RETURN, INC.

(A Delaware Corporation)

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Table of ContentsEQUUS TOTAL RETURN, INC.BALANCE SHEETS

	March 31, 2011 (Unaudited)	December 31, 2010
(in thousands, except per share amounts)		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$34,186 and \$34,231 respectively)	\$ 16,654	\$17,576
Affiliate investments (cost at \$350 and \$923 respectively)	50	762
Non-affiliate investments (cost at \$9,795 and \$19,808 respectively)	150	9,324
Total investments in portfolio securities at fair value	16,854	27,662
Cash and cash equivalents	17,165	7,382
Restricted cash and temporary cash investments	6,060	15,150
Accounts receivable and other	43	273
Accrued interest receivable	2,422	2,724
Deferred offering costs	415	263
Total assets	42,959	53,454
Liabilities and net assets		
Accounts payable and accrued liabilities	591	345
Accounts payable - related parties	35	58
Borrowing under margin account	6,000	15,000
Total liabilities	6,626	15,403
Commitments and contingencies (Note 1)		
Net assets	\$ 36,333	\$38,051
Net assets consist of:		
Common stock, par value	\$ 9	\$9
Capital in excess of par value	69,742	70,597
Undistributed net investment losses	(5,941)	(5,255)
Unrealized depreciation of portfolio securities, net	(27,477)	(27,300)
Total net assets	\$ 36,333	\$38,051
Shares of common stock issued and outstanding, \$.001 par value, 50,000 shares authorized	8,862	8,862
Shares of preferred stock issued and outstanding, \$.001 par value, 5,000 shares authorized	—	—
Net asset value per share	\$ 4.10	\$4.29

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

Table of ContentsEQUUS TOTAL RETURN, INC.STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)	Three months ended March 31,	
	2011	2010
Investment income:		
Interest and dividend income:		
Control investments	\$316	\$304
Affiliate investments	4	13
Non-affiliate investments	112	530
Total interest and dividend income	432	847
Interest from temporary cash investments	7	4
Total investment income	439	851
Expenses:		
Compensation expense	492	348
Professional fees	339	344
Settlement expense	120	—
Director fees and expenses	82	100
Mailing, printing and other expenses	41	29
General and administrative expense	51	44
Interest expense	—	9
Taxes	—	24
Total expenses	1,125	898
Net investment loss	(686)	(47)
Net realized gain (loss):		
Affiliate investments	138	—
Non-affiliate investments	(992)	—
Temporary cash investments	(1)	(4)
Net realized loss	(855)	(4)
Net unrealized depreciation of portfolio securities:		
End of period	(27,477)	(15,926)
Beginning of period	(27,300)	(15,227)
Net change in unrealized depreciation of portfolio securities	(177)	(699)
Net decrease in net assets resulting from operations	\$(1,718)	\$(750)
Net decrease in net assets resulting from operations per share:		
Basic and diluted	\$(0.19)	\$(0.08)
Weighted average shares outstanding		
Basic and diluted	8,862	8,862

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

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EQUUS TOTAL RETURN, INC.

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(in thousands)	Three months ended March 31,	
	2011	2010
Net decrease in net assets resulting from operations	\$(1,718)	\$(750)
Net assets at beginning of period	38,051	50,901
Net assets at end of period	\$36,333	\$50,151

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

Table of ContentsEQUUS TOTAL RETURN, INC.STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31,	
(in thousands)	2011	2010
Reconciliation of decrease in net assets resulting from operations to net cash provided by operating activities:		
Net decrease in net assets resulting from operations	\$(1,718)	\$(750)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities		
Net realized loss	855	4
Net change in unrealized depreciation of portfolio securities	177	699
Changes in operating assets and liabilities:		
Purchase of portfolio securities	(35)	(200)
Net proceeds from dispositions of portfolio securities	9,731	—
Principal payments received from portfolio securities	80	122
Sales of temporary cash investments	9,090	9,086
(Increase) decrease in accounts receivable and other	230	(5)
(Increase) decrease in accrued interest receivable	302	(461)
Increase in accounts payable and accrued liabilities	246	154
Decrease in accounts payable-related parties	(23)	—
Net cash provided by operating activities	18,935	8,649
Cash flows from financing activities:		
Borrowings under margin account	6,000	20,999
Repayments under margin account	(15,000)	(29,999)
Cash paid for deferred offering costs	(152)	—
Net cash used in financing activities	(9,152)	(9,000)
Net increase (decrease) in cash and cash equivalents	9,783	(351)
Cash and cash equivalents at beginning of period	7,382	6,045
Cash and cash equivalents at end of period	\$17,165	\$5,694
Non-cash operating and financing activities:		
Accrued interest or dividends exchanged for portfolio securities	\$—	\$165
Supplemental disclosure of cash flow information:		
Interest paid	\$4	\$7
Income taxes paid	\$—	\$24

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

Table of ContentsEQUUS TOTAL RETURN, INC.SUPPLEMENTAL INFORMATION—SELECTED PER SHARE DATA AND RATIOS

(Unaudited)

	Three months ended March 31,	
	2011	2010
Investment income	\$0.05	\$0.10
Expenses	0.13	0.10
Net investment loss	(0.08)	—
Net realized loss	(0.09)	—
Net change in unrealized depreciation	(0.02)	(0.08)
Net decrease in net assets	(0.19)	(0.08)
Net assets at beginning of period	4.29	5.74
Net assets at end of period, basic and diluted	\$4.10	\$5.66
Weighted average number of shares outstanding during period, in thousands	8,862	8,862
Market price per share		
Beginning of period	\$2.50	\$3.20
End of period	\$2.60	\$2.81
Total Return ⁽¹⁾	4.00 %	(12.19)%
Selected ratios:		
Ratio of expenses to average net assets	3.02 %	1.78 %
Ratio of net investment loss to average net assets	(1.84)%	(0.09)%
Ratio of net decrease in net assets resulting from operations to average net assets	(4.62)%	(1.48)%

(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.

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS****March 31, 2011****(Unaudited)***(in thousands, except share data)*

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
Control investments:						
Majority-owned (6):						
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)		\$4,000	
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%)		65	
			8% promissory notes due 9/14(5)	\$10,009	10,009	-
					10,074	-
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock (64.66% / 55.00% Fully Diluted) 12% subordinated promissory notes due 5/13(2)	2,662	5,080 2,662	
					7,742	
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (81% Fully Diluted) 16% subordinated promissory notes due 5/11(2)(3)	2,150	2,850 2,150	-
					5,000	1
Total Control investments: Majority-owned (represents 42.1% of total investments at fair value)					\$26,816	\$9,6
Control Investments: Non-majority owned(7):						
		February 1997			\$1,370	\$

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ConGlobal Industries Holding, Inc. San Ramon, CA	Shipping products and services	24,397,303 shares of common stock (34.2%)		
		7% subordinated promissory note due 12/12(3)	\$6,000	6,000
				7,370
Total Control Investments: Non-majority Owned (represents 30.8% of total investments at fair value)			\$7,370	\$7,03
Total Control Investments: (represents 72.9% of total investments at fair value)			\$34,186	\$16,65
Affiliate Investments(8):				
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001 350,000 shares of common stock (20% / 18.70% Fully Diluted)		\$350
Total Affiliate Investments (represents 0.2% of total investments at fair value)			\$350	\$5

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS – (Continued)****March 31, 2011****(Unaudited)***(in thousands, except share data)*

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Cost of Principal Investment	Fair Value(1)
Non-Affiliate Investments (less than 5% owned):					
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	115,180 shares common stock (0.63%) Option to purchase 16,000 shares of common stock at \$6.50 per share through 12/12	\$8,000 8,000	\$- - -
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock 38,750 Class C shares preferred stock 788,649 Class D shares 15% preferred stock 2,218,109 Class E shares 8% preferred stock Warrant to buy 2,229,450 shares of common stock through 5/16	1,795 1,795	- - - - - - -
Trulite, Inc. Columbia, SC	Alternative energy	August 2008	Warrants to buy 8,934,211 shares of common stock through at \$0.01 - \$0.38 per share through 11/15	-	150
Total Non-Affiliate Investments (represents 0.7% of total investments at fair value)				\$9,795	\$150
Total Portfolio Securities				\$44,331	\$16,854
Temporary Cash Investments					
U.S. Treasury Bill (9)	Government	April 2011	UST 0% due 4/11	\$6,000 \$6,000	\$6,000 \$6,000

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Total Temporary Cash Investments (represents 26.2% of total investments at fair value)

Total Investments	\$50,331	\$22,854
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- (1) See Note 3 to the financial statements, Valuation of Investments.
- (2) Income-producing.
- (3) Income on these securities is accrued to maturity.
- (4) Income on these securities is paid-in-kind by the issuance of additional securities, or through accretion of original issue discount.
- (5) Non-income producing.
- (6) Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which we own more than 50% of the voting securities of the company.
- (7) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which we own more than 25% but not more than 50% of the voting securities of the company.
- (8) Affiliate investments are generally defined under the Investment Company Act of 1940 as companies in which we own at least 5% but not more than 25% voting securities of the company.
- (9) The Fund has included U.S. Treasury Bills in "Restricted Cash and Temporary Cash Investments" on the balance sheet.

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS – (Continued)****March 31, 2011****(Unaudited)**

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

As defined in the Investment Company Act of 1940, as of March 31, 2011 all of our investments were in eligible portfolio companies. We provide significant managerial assistance to portfolio companies that comprise 100% of the total value of the investments in portfolio securities as of March 31, 2011.

Our investments in portfolio securities consist of the following types of securities as of March 31, 2011 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets	
Secured and subordinated debt	\$20,821	\$10,529	29.0	%
Common stock	14,800	5,013	13.8	%
Limited liability company investments	6,915	1,162	3.2	%
Options and warrants	—	150	0.4	%
Preferred stock	1,795	—	0.0	%
Total	\$44,331	\$16,854	46.4	%

Cash payments of interest are currently being received and/or accrued on secured and subordinated debt, aggregating \$10.5 million in fair value while notes with a cost basis of \$10 million and a fair value of \$0 are non-income producing.

The following is a summary by industry of the Fund's investments in portfolio securities as of March 31, 2011 (in thousands):

Industry	Fair Value as Percentage of Net Assets
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	Fair Value		
Business products and services	\$8,457	23.3	%
Shipping products and services	7,085	19.5	%
Media	1,162	3.2	%
Alternative energy	150	0.4	%
Entertainment and leisure	-	-	
Total	\$16,854	46.4	%

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS****DECEMBER 31, 2010***(in thousands, except share data)*

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Cost of Principal Investment	Fair Value(1)
Control investments: Majority-owned (6):					
Equus Media Development Company, LLC Houston, TX	Media	January 2007	Member interest (100%)	\$4,000	\$1,163
Riptide Entertainment, LLC Miami, FL	Entertainment and leisure	December 2005	Member interest (64.67%)	65	-
			8% promissory notes due 9/14(5)	10,009	10,009
Sovereign Business Forms, Inc. Houston, TX	Business products and services	August 1996	1,214,630 shares of common stock (64.66% / 55.00% Fully Diluted)	5,080	3,894
			12% subordinated promissory notes due 5/13(2)	2,742	2,742
				7,822	6,636
Spectrum Management, LLC Carrollton, TX	Business products and services	December 1999	285,000 units of Class A member interest (81% Fully Diluted)	2,850	-
			16% subordinated promissory notes due 5/11(2)(3)	2,115	1,422
				4,965	1,422
Total Control investments: Majority-owned (represents 21.6% of total investments at fair value)				\$26,861	\$9,221
Control Investments: Non-majority owned(7):					
ConGlobal Industries Holding, Inc. San Romon, CA	Shipping products and services	February 1997	24,397,303 shares of common stock (34.2%)	\$1,370	\$2,355
			7% subordinated promissory note due 12/12(3)	6,000	6,000
				7,370	8,355

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Total Control Investments: Non-majority Owned (represents 19.6% of total investments at fair value)				\$7,370	\$8,355
Total Control Investments: (represents 41.2% of total investments at fair value)				\$34,231	\$17,576
Affiliate					
Investments(8):					
PalletOne, Inc. Bartow, FL	Shipping products and services	October 2001	350,000 shares of common stock (20% / 18.70% Fully Diluted)	\$350	\$50
RP&C International Investments LLC New York, NY	Healthcare	September 2006	Member interest (17.24%)	573	712
Total Affiliate Investments (represents 1.8% of total investments at fair value)				\$923	\$762

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS—(Continued)****DECEMBER 31, 2010***(in thousands, except share data)*

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value(1)
Non-Affiliate Investments (less than 5% owned):						
1848 Capital Partners LLC Miami, FL	Entertainment and leisure	January 2008	18% promissory note due 1/11(4)	\$3,883	\$3,883	\$3,883
Big Apple Entertainment Partners LLC New York	Entertainment and leisure	October 2007	18% promissory note due 10/10(4)	3,275	3,275	3,275
Infinia Corporation Kennewick, WA	Alternative energy	June 2007	115,180 shares common stock (0.63%) Option to purchase 16,000 shares of common stock at \$6.50 per share through 12/12		8,000 - 8,000	- -
London Bridge Entertainment Partners Ltd London UK	Entertainment and leisure	August 2008	18% promissory notes due 8/11(4)	2,855	2,855	2,026
The Bradshaw Group Richardson, TX	Business products and services	May 2000	576,828 Class B Shares 12.25% preferred stock 38,750 Class C shares preferred stock 788,649 Class D shares 15% preferred stock 2,218,109 Class E shares 8% preferred stock Warrant to buy 2,229,450 shares of common stock through 5/16		1,795 - - - -	- - - -
					1,795	-
Trulite, Inc. Columbia, SC	Alternative energy	August 2008	Warrants to buy 8,934,211 shares of common stock	-	-	140

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through at \$0.01 - \$0.38 per
share through 11/15

Total Non-Affiliate Investments (represents 21.9% of total investments at fair value)					\$19,808	\$9,324
Total Portfolio Securities					\$54,962	\$27,662
Temporary Cash Investments						
U.S. Treasury Bill	Government	December 2010	UST 0% due 1/11	\$15,000	\$15,000	\$15,000
Total Temporary Cash Investments (represents 35.1% of total investments at fair value)					\$15,000	\$15,000
Total Investments					\$69,962	\$42,662

- (1) See Note 3 to the financial statements, Valuation of Investments.
- (2) Income-producing.
- (3) Income on these securities is accrued to maturity.
- (4) Income on these securities is paid-in-kind by the issuance of additional securities, or through accretion of original issue discount.
- (5) Non-income producing.
- (6) Majority owned investments are generally defined under the Investment Company Act of 1940 as companies in which we own more than 50% of the voting securities of the company.
- (7) Non-majority owned control investments are generally defined under the Investment Company Act of 1940 as companies in which we own more than 25% but not more than 50% of the voting securities of the company.
- (8) Affiliate investments are generally defined under the Investment Company Act of 1940 as companies in which we own at least 5% but not more than 25% voting securities of the company.
- (9) The Fund has included U.S. Treasury Bills in "Restricted Cash and Temporary Cash Investments" on the balance sheet.

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

Table of Contents**EQUUS TOTAL RETURN, INC.****SCHEDULE OF INVESTMENTS – (Continued)****DECEMBER 31, 2010***(in thousands, except share data)*

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

As defined in the Investment Company Act of 1940, as of December 31, 2010 all of our investments were in eligible portfolio companies. We provide significant managerial assistance to portfolio companies that comprise 78.5% of the total value of the investments in portfolio securities as of December 31, 2010.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2010 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets	
Secured and subordinated debt	\$30,879	\$19,348	50.8	%
Common stock	14,800	6,299	16.6	%
Limited liability company investments	7,488	1,875	4.9	%
Options and warrants	—	140	0.4	%
Preferred stock	1,795	—	0.0	%
Total	\$54,962	\$27,662	72.7	%

Three notes receivable included in secured and subordinated debt with an estimated fair value of \$9.2 million provide that all or a portion of interest is paid-in-kind, by adding such amount to the principal of the notes. For the remainder of secured and subordinated debt, cash payments of interest are currently being received and/or accrued on notes aggregating \$10.1 million in fair value, while notes with a cost basis of \$10 million and a fair value of \$0 are non-income producing.

The following is a summary by industry of our investments in portfolio securities as of December 31, 2010 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
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Entertainment and leisure	\$9,184	24.1	%
Shipping products and services	8,405	22.1	%
Business products and services	8,058	21.2	%
Media	1,163	3.1	%
Healthcare	712	1.8	%
Alternative energy	140	0.4	%
Total	\$27,662	72.7	%

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

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EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2011 AND 2010

(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 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 new strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

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. We seek to invest primarily in companies which intend to grow either by acquiring other businesses, including leveraged buyouts, or organically. We may also invest in recapitalizations of existing businesses or special situations from time to time. Our investments in portfolio companies consist of equity securities such as common and preferred stock, but also include other equity-oriented securities such as debt convertible into common or preferred stock or debt combined with warrants, options or other rights to acquire common or preferred stock. We elected to be treated as a business development company under the Investment Company Act of 1940 (“1940 Act”). For tax purposes, we have elected to be treated as a regulated investment company (“RIC”). With shareholder approval on June 30, 2005, we entered into a new investment advisory agreement with Moore Clayton Capital Advisors, Inc. (the “Adviser”). Prior to this agreement, our adviser was Equus Capital Management Corporation. On June 12, 2009, our board of directors announced plans to “internalize” Fund management. Our investment advisory agreement with the Adviser terminated on June 30, 2009. The Fund now directly employs its management team and incurs the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to the Fund under a fee-based advisory agreement, or an administrative organization charging the Fund for services rendered.

Effective August 11, 2006, we began to employ a total return investment style. The total return style combines both growth and income investments and is intended to strike a balance between the potential for gain and the risk of loss. In the growth category, we are a “growth-at-reasonable-price” investor. We invest primarily in privately owned companies and are open to virtually any potential growth investment in the privately owned arena. However, our primary aim is to identify and acquire only those equity securities that meet our criteria for selling at reasonable prices. The income investments made consist principally of purchasing debt financing with the objective of generating regular interest income as well as long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

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

The results of operations for the three months ended March 31, 2011 are not necessarily indicative of results that ultimately may be achieved for the year. The interim unaudited consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Fund's Form 10-K for the fiscal year ended December 31, 2010, as filed with the Security and Exchange Commission ("SEC"). Certain prior period information has been reclassified to conform to current year presentation.

(2) Liquidity and Financing Arrangements

Liquidity—There are several factors that may materially affect the Fund's liquidity during the reasonably foreseeable

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future. The Fund views this period as the twelve month period from the date of the financial statements in this Form 10-Q, *i.e.*, the period through March 31, 2011.

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. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Cash and Temporary Investments—As of March 31, 2011, we had cash and cash equivalents of \$17.2 million. We had \$16.9 million of our net assets of \$36.3 million invested in portfolio securities. Temporary cash investments of \$6.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain our pass-through tax treatment. Restricted cash amounted to \$0.06 million for the required 1% brokerage deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on April 1, 2011.

As of December 31, 2010, we had cash and cash equivalents of \$7.4 million. We had \$27.7 million of our net assets of \$38.1 million invested in portfolio securities. Temporary cash investments of \$15.0 million were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain our pass-through tax treatment. Restricted cash amounted to \$0.2 million for the required 1% brokerage deposit. These securities are held by a securities brokerage firm and are pledged along with cash to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on January 3, 2011.

Dividends— On March 24, 2009, we announced that we suspended our managed distribution policy and payment of quarterly distributions for an indefinite period, following the distribution of the first quarter dividend, paid on March 30, 2009. We will continue to 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.

Revolving Line of Credit Agreement—Effective September 8, 2010, the Fund terminated its revolving line of credit agreement (the “Credit Facility”) with Amegy Bank of Texas. The Credit Facility was secured by substantially all of the Fund’s portfolio assets and securities. The Fund did not borrow any amounts under the Credit Facility.

Investment Commitments—As of March 31, 2011, we had total commitments of \$0.3 million committed to Spectrum Management, LLC, which is in the business products and services industry.

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.

RIC Borrowings, Restricted Cash and Temporary Investments—As of March 31, 2011 and December 31, 2010, we borrowed sufficient funds to maintain the Fund’s RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If 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. Failure to continue to qualify as a RIC could be material to us and our stockholders.

As of March 31, 2011, we borrowed \$6.0 million to make qualifying investments to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of \$6.1 million. The U.S. Treasury bills were sold and the total amount borrowed was repaid on April 1, 2011.

As of December 31, 2010, we borrowed \$15.0 million to make qualifying investments to maintain our RIC status by utilizing a margin account with a securities brokerage firm. We collateralized such borrowings with restricted cash and temporary cash investments in U.S. Treasury bills of \$15.2 million. The U.S Treasury bills were sold on January 3, 2011 and the total amount borrowed was repaid at that time.

Certain Risks and Uncertainties—Economic conditions during 2010 and 2009 and market dislocations resulted in the availability of debt and equity capital declining significantly. Generally, the limited amount of available debt financing has

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shorter maturities, higher interest rates and fees, and more restrictive terms than debt facilities available in the past. In

addition, the price of our common stock continues to trade below our net asset value, limiting our ability to raise equity capital. Because of these challenges, our near-term strategies shifted from originating debt and equity investments to preserving liquidity and seeking liquidity events to meet our operational needs. Key initiatives we are pursuing to improve liquidity include monetizations and the suspension of dividends. Although there can be no assurances that such initiatives will be sufficient, we believe we have sufficient liquidity to meet our 2011 operating requirements.

(3) Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires 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.

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

Publicly-traded portfolio securities—Investments in companies whose securities are publicly traded are generally valued at their quoted market price at the close of business on the valuation date.

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

During the first twelve months after an investment is made, the original investment value is utilized 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). After the twelve month period, or if material events have occurred within the twelve month period, Fund management considers a two step process when appraising investments of privately held companies. The first step involves determining the enterprise value of the portfolio company. During this step, Fund management considers three different valuation approaches: a market approach, an income approach, and an asset approach. The particular facts and circumstances of each portfolio company determine which approach, or combination of approaches, will be utilized. The second step when appraising equity investments of privately held companies involves allocating value to

the various debt and equity securities of the company. Fund management allocates value to these securities based on their relative priorities. For equity securities such as warrants, the Fund may also incorporate alternative methodologies including the Black-Scholes Option Pricing Model.

Market approach – The market approach typically employed by Fund management calculates the enterprise value of a company as a multiple of earnings before interest, taxes, depreciation and amortization (“EBITDA”) generated by the company for the trailing twelve month period. Adjustments to the company’s EBITDA, including those for non-recurring items, may be considered. Multiples are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable. The Fund may also use, when available, third-party transactions in a portfolio company’s securities as the basis of valuation (the “private market method”). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

Income approach – The income approach typically utilized by Fund management calculates the enterprise value of a company utilizing a discounted cash flow model incorporating projected future cash flows of the company. Projected future

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cash flows consider the historical performance of the company as well as current and projected market participant performance. Discount rates are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable.

Asset approach – The Fund considers the asset approach during the first twelve months after an investment is made, the Fund considers the asset approach to determine the fair value of significantly deteriorated investments demonstrating circumstances indicative of a liquidation analysis. This situation may arise when a portfolio company: 1) cannot generate adequate cash flow to meet the principal and interest payments on its indebtedness; 2) is not successful in refinancing its debt upon maturity; 3) Fund management believes the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions may result in the company's inability to meet future obligations; or 4) the portfolio company's reorganization or bankruptcy. Consideration is also given as to whether a liquidation event would be orderly or forced.

Fund management considers that the Fund's general intent is to hold its loans to maturity when appraising its privately held debt investments. As such, Fund management believes 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, the Fund performs a yield analysis to determine if a debt security has been impaired.

Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

The Audit Committee of the Board of Directors may engage independent, third-party valuation firms to conduct independent appraisals and review management's preliminary valuations of each privately-held investment in order to make their own independent assessment. Any third-party valuation data would be considered as one of many factors in a fair value determination. The Audit Committee then would recommend the fair values for all privately-held securities based on all relevant factors to the Board of Directors for final approval.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to \$16.9 million and \$27.7 million as of March 31, 2011 and December 31, 2010, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. There were no publicly traded securities as of March 31, 2011 or December 31, 2010.

On a daily basis, 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 reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including *Barron's* and *The Wall Street Journal*.

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

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

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 EQS 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 EQS owns between 5% and 25% of the voting securities. Under the

1940 Act, “Non-affiliate Investments” are defined as investments that are neither Control Investments nor Affiliate Investments.

Interest 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 amortizes discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost

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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. If the Fund receives any cash after determining that interest is no longer collectible, it treats such cash as payment on the principal balance until the entire principal balance has been repaid, before it recognizes any additional interest income.

Payment in Kind Interest (PIK)—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.

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 include our investing activities within cash flows from operations. We exclude “Restricted Cash & Temporary Cash Investments” used for purposes of complying with RIC requirements from cash equivalents.

Income Taxes—We intend to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gains) which is distributed to stockholders. Therefore, no provision for federal income taxes is recorded in the financial statements. We borrow money from time to time to maintain our tax status under the Internal Revenue Code as a RIC. 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.

Fair Value Measurement—In September 2006, the Financial Accounting Standard Board (FASB) issued guidance regarding Fair Value Measurements which defined fair value, established a framework for measuring fair value, outlined a fair value hierarchy based on inputs used to measure fair value and enhanced disclosure requirements for fair value measurements. The guidance did not change existing guidance as to whether an instrument is carried at fair value. We adopted changes issued by the FASB to fair value disclosures of financial instruments which define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We have categorized all investments recorded at fair value based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

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

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

Level 3—Inputs reflect management’s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are debt, warrants and/or other equity investments held in a private company. As previously described, Fund management considers a two step process when appraising investments of privately held companies. The first step involves determining the enterprise value of the portfolio company. During this step, Fund management considers three different valuation

approaches: a market approach, an income approach, an asset approach. The particular facts and circumstances of each portfolio company determine which approach, or combination of approaches, will be utilized. The second step when appraising equity investments of privately held companies involves allocating value to the various debt and equity securities of the company. Fund management allocates value to these securities based on their relative priorities. For equity securities such as warrants, the Fund may also incorporate alternative methodologies including the Black-Scholes Option Pricing Model. Yield analysis is also employed to determine if a debt security has been impaired.

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We will 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.

As of March 31, 2011, 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:

(in thousands)	Total	Fair Value Measurements As of March 31, 2011		
		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	\$16,654	\$—	\$ —	\$ 16,654
Affiliate investments	50	—	—	50
Non-Affiliate investments	150	—	—	150
Total Investments	16,854	—	—	16,854
Temporary Cash Investments	6,000	6,000	—	—
Total Investments and Temporary Cash Investments	\$22,854	\$6,000	\$ —	\$ 16,854

As of December 31, 2010, 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:

(in thousands)	Total	Fair Value Measurements As of December 31, 2010		
		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	\$17,576	\$—	\$ —	\$ 17,576
Affiliate investments	762	—	—	762

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Non-Affiliate investments	9,324	—	—	9,324
Total Investments	27,662	—	—	27,662
Temporary Cash Investments	15,000	15,000	—	—
Total Investments and Temporary Cash Investments	\$42,662	\$15,000	\$ —	\$ 27,662

The following table provides a reconciliation of fair value changes during the three months ending March 31, 2011 for all investments for which we determine fair value using unobservable (Level 3) factors:

(in thousands)	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2010	\$17,576	\$ 762	\$ 9,324	\$27,662
Unrealized appreciation (depreciation)	(877)	(139)	839	(177)
Issuances	35	—	—	35
Settlements	(80)	(573)	(10,013)	(10,666)
Fair value as of March 31, 2011	\$16,654	\$ 50	\$ 150	\$16,854

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The following table provides a reconciliation of fair value changes during the three months ending March 31, 2010 for all investments for which we determine fair value using unobservable (Level 3) factors:

	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of December 31, 2009	\$28,729	\$2,128	\$11,554	\$42,411
Change in unrealized appreciation (depreciation)	119	(818) —	(699)
Purchases, issuances and settlements, net	(122) —	365	243
Fair value as of March 31, 2010	\$28,726	\$1,310	\$11,919	\$41,955

(4) Related Party Transactions and Agreements

We entered into an investment advisory agreement dated June 30, 2005 with Moore Clayton Capital Advisors, Inc., pursuant to which Moore Clayton Capital Advisors, Inc. (“MCCA”), provided investment advisory services in exchange for an advisory fee. We also entered into an administration agreement dated June 30, 2005 with Equus Capital Administration Company, Inc. (“ECAC”), pursuant to which ECAC provided administrative services in exchange for an administrative fee. The Fund’s Board of Directors terminated the advisory agreement and the administrative agreement effective June 30, 2009. Since that date, the Fund has been “internally” managed, which means that the Fund directly employs its management team and incurs the costs and expenses associated with Fund operations.

As compensation for services to the Fund, each Independent Director receives an annual fee of \$20,000 paid quarterly in arrears, a fee of \$2,000 for each meeting of the Board of Directors attended in person, a fee of \$1,000 for participation in each telephonic meeting of the Board and a fee of \$1,000 for each committee meeting attended, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. A quarterly fee of \$2,500 is paid to the Chairman of the Audit Committee and a quarterly fee of \$3,750 is paid to the Chairman of the Independent Directors. The Fund incurred \$0.08 million and \$0.1 million as of March 31, 2011 and March 31, 2010 respectively.

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 shall pay a rate of \$250 per hour for services rendered. The Fund incurred \$0.05 million which is included in compensation expense as of March 31, 2011 in the statement of operations and \$0.03 million which is included in deferred offering costs on the balance sheet as of March 31, 2011 for services provided by Kenneth I. Denos, Secretary of the Fund.

On December 17, 2010, the Fund entered into a consulting (“Consulting Agreement”) with John A. Hardy, the Fund’s Executive Chairman. The Consulting Agreement provides for base compensation to Mr. Hardy of \$200,000 per annum, commencing June 1, 2010, and a bonus based upon achievement of certain criteria. The bonus is subject to a payout cap of \$150,000 for each fiscal year that the Consulting Agreement is in effect, and any bonus earned that exceeds the payout cap will be carried over into subsequent fiscal years. If the Consulting Agreement is terminated without cause, as defined therein, Mr. Hardy will be entitled to receive one year’s base consulting fee, together with all bonuses earned and unpaid up until the date of termination. Mr. Hardy is not entitled to participate in any employee-related benefits, including health, life and disability plans, of the Fund. In January 2011, the Fund disposed of certain investments and received \$10.0 million in cash. Mr. Hardy received a cash bonus of \$150,000 for fiscal 2011 as a result of the completion of this transaction and, pursuant to the Consulting Agreement, is not entitled to be paid any additional bonus for the remainder of fiscal 2011. As of March 31, 2011, the Fund incurred compensation expense of \$200,000 relating to Mr. Hardy’s Consulting Agreement which included the \$150,000 cash bonus for fiscal

2011 described above. Mr. Hardy has waived his right to \$561,662 of earned but unpaid bonus under the Consulting Agreement for fiscal 2010 and has further permanently waived his right to \$620,604 of earned but unpaid bonus in connection with activities of the Fund during the first quarter of 2011.

In June 2010, the Fund ratified and approved the use of A+ Filings, LLC ("A+ Filings") to file its reports with the Securities and Exchange Commission. Mr. Kenneth I. Denos, Secretary of the Fund, holds a majority of the voting shares of A+ Filings. The Fund incurred \$7,000 in services rendered by A+ Filings for the quarter ended March 31, 2011.

(5) Dividends

On March 24, 2009, the Fund announced that it suspended its managed distribution policy and payment of quarterly
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distributions for an indefinite period. We will continue to 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.

(6) Portfolio Securities

During the three months ended March 31, 2011, we made a follow-on investment of \$0.03 million in Spectrum Management, LLC.

During the three months ended March 31, 2011, we realized net capital losses of \$0.9 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain (Loss)
London Bridge Entertainment Partners Ltd	Entertainment and leisure	Secured and subordinated debt	(992)
RP&C International Investments LLC	Healthcare	Membership Interest	138
Various others			(1)
			\$ (855)

During the three months ended March 31, 2011, we sold our promissory notes in 1848 Capital Partners, LLC (“1848”), Big Apple Entertainment Partners, LLC (“Big Apple”), and London Bridge Entertainment Partners, Ltd (“London Bridge”) and certain assets of Riptide Entertainment Partners, LLC (“Riptide”) in which we hold a 64.67% membership interest. All of these assets were sold to Capital Markets Acquisition Partners, LLC for a combined price of \$10 million, with \$9.8 million allocated to the promissory notes held by the Fund and \$0.2 million to Riptide. The Fund allocated the proceeds to the promissory notes resulting in a realized loss of approximately \$0.9 million at London Bridge. In addition, the monies provided to Riptide were sufficient to satisfy its outstanding liabilities, resulting in a value of \$0. We also received \$0.8 million in connection with the sale and redemption of our membership interest in RP&C International Investments LLC.

Net unrealized depreciation on investments increased by \$0.2 million, during the three months ended March 31, 2011, to a net unrealized depreciation of \$27.5 million. Such increase in depreciation resulted from the following changes:

- (i) Decline in fair market value of ConGlobal Industries Holding, Inc. (“ConGlobal”) of \$1.3 million due to lower storage revenues for containers.
- (ii) Transfer of unrealized depreciation to realized depreciation for London Bridge Entertainment Partners, Ltd. (London Bridge) of \$0.8 million due to the sale of the promissory note.
- (iii) Transfer of unrealized appreciation to realized appreciation for RP&C International Investments, LLC (RP&C) of \$0.1 million due to the maturity of the investment.
- (iv) Increase in fair market value of Spectrum Management, Inc. (“Spectrum”) of \$0.4 million due to the extension of the maturity of outstanding debt and the increase in market comparables.

During the three months ended March 31, 2010, the Fund had investment activity of \$0.4 million in several follow-on investments, including \$0.2 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK).

The following table includes significant investment activity during the quarter ended March 31, 2010 (in thousands):

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	New Investments		Existing Investments		
	Cash	PIK	Follow-On	PIK	Total
Trulite, Inc.	\$ —	\$ —	\$200	\$ —	\$200
1848 Capital Partners LLC	—	—	—	71	71
London Bridge Entertainment Partners Ltd.	—	—	—	54	54
Big Apple Entertainment Partners LLC	—	—	—	40	40

\$ — \$ — \$200 \$165 \$365

During the three months ended March 31, 2010, we realized no significant gains or losses on sales of portfolio securities.

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Net unrealized depreciation on investments increased by \$0.7 million during the three months ended March 31, 2010, to a net unrealized depreciation of \$15.9 million. Such increase in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation of (\$0.8) million, Riptide Entertainment LLC of (\$0.1) million and Spectrum Management, LLC of (\$0.2) million, resulting from declining sales and trailing operations for the period. These decreases in estimated fair market value were partially offset by the increase in fair market value of Sovereign Business Forms, Inc. of \$0.4 million, resulting from an increase in operations.

(9) Recent Accounting Pronouncements

In January 2010, the FASB issued changes to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes become effective for the Fund beginning January 1, 2011. Other than the additional disclosure requirements, the adoption of this standard did not have a material effect on our financial position and results of operations.

(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:

On April 1, 2011, the Fund sold U.S. Treasury bills for \$6.0 million and repaid the margin loan.

On April 25, 2011, the Fund received \$0.08 million from Sovereign Business Forms, Inc. in the form of a principal payment.

On April 27, 2011, the Fund announced that it had entered into two separate transactions involving the purchase of an aggregate of 11,408 bonds ("Bonds") issued by Orco Germany S.A., a commercial and multi-family residential real estate holding company and developer based in Berlin. The consideration provided to the selling bondholders consists of an aggregate of 1,700,000 newly issued shares of common stock of the Fund. The Fund received 8,890 of the Bonds on April 27, 2011. On May 9, 2011, one of these agreements was amended and restated to provide for an additional 45 days to deliver 2,518 of the Bonds in exchange for providing to the Fund approximately \$1.7 million in cash as security for such delivery.

On March 10, 2010, American General Life Insurance Company ("American General") filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees totaling approximately \$450,000. On May 11, 2011, we agreed to a settlement with American General in exchange for a one-time settlement fee of \$120,000.

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

Overview

Equus is a Business Development Corporation ("BDC") that provides financing solutions for privately held middle

market and small capitalization companies. We began operations in 1983 and have been a publicly traded closed-end fund since 1991. Our investment objective is to seek the highest total return, consisting of capital appreciation and current income.

The valuation of the Fund's investments is the most significant area of judgment impacting the financial statements. The Fund's portfolio investments are valued at estimates of fair value, with the net change in unrealized appreciation or depreciation included in the determination of net assets. Almost all of the long-term investments are in privately-held or restricted securities, the valuation of which is necessarily subjective. Actual values may differ materially from the Fund's estimated fair value.

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

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In June 2005, we retained Moore Clayton Capital Advisors, Inc. (“MCCA”) as our registered investment adviser to manage our portfolio and provide access to investment opportunities. Our investment advisory agreement with MCCA terminated on June 30, 2009 and we have since internalized the management of the Fund. We now directly employ our management team and incur the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to us under a fee-based advisory agreement, or an administrative organization charging us for services rendered. We expect that, because of management internalization, certain expenses of the Fund will not increase commensurate with an increase in the size of the Fund and, therefore, we can achieve efficiencies in our cost structure if we are able to grow the Fund.

Effective August 11, 2006, we began to employ a total return investment style. The total return style combines both growth and income investments and is intended to strike a balance between the potential for gain and the risk of loss. In the growth category, we are a “growth-at- reasonable-price” investor. We invest primarily in privately owned companies and are open to virtually any potential growth investment in the privately owned arena. However, our primary aim is to identify and acquire only those equity securities that meet our criteria for selling at reasonable prices. The income investments made consist principally of purchasing debt financing with the objective of generating regular interest income as well as long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

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

Significant Accounting Policies

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

Use of Estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires 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.

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

Publicly-traded portfolio securities—Investments in companies whose securities are publicly traded are generally valued at their quoted market price at the close of business on the valuation date.

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

During the first twelve months after an investment is made, the Fund utilizes 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). After the twelve month period, or if material events have occurred within the twelve month period, Fund management considers a two step process when appraising investments of privately held companies. The first step involves determining the enterprise value of the portfolio company. During this step, Fund management considers three different valuation approaches: a market approach, an income approach, and an asset approach. The particular facts and circumstances of each portfolio company determine which approach, or combination of approaches, will be utilized. The second step when appraising equity

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investments of privately held companies involves allocating value to the various debt and equity securities of the company. Fund management allocates value to these securities based on their relative priorities. For equity securities such as warrants, the Fund may also incorporate alternative methodologies including the Black-Scholes Option Pricing Model.

Market approach – The market approach typically employed by Fund management calculates the enterprise value of a company as a multiple of earnings before interest, taxes, depreciation and amortization (“EBITDA”) generated by the company for the trailing twelve month period. Adjustments to the company’s EBITDA, including those for non-recurring items, may be considered. Multiples are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable. The Fund may also use, when available, third-party transactions in a portfolio company’s securities as the basis of valuation (the “private market method”). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

Income approach – The income approach typically utilized by Fund management calculates the enterprise value of a company utilizing a discounted cash flow model incorporating projected future cash flows of the company. Projected future cash flows consider the historical performance of the company as well as current and projected market participant performance. Discount rates are estimated based on current market conditions and past experience in the private company marketplace and are subjective in nature. The Fund will apply liquidity and other discounts it deems appropriate to equity valuations where applicable.

Asset approach – The Fund considers the asset approach to determine the fair value of significantly deteriorated investments demonstrating circumstances indicative of a liquidation analysis. This situation may arise when a portfolio company: 1) cannot generate adequate cash flow to meet the principal and interest payments on its indebtedness; 2) is not successful in refinancing its debt upon maturity; 3) Fund management believes the credit quality of a loan has deteriorated due to changes in the business and underlying asset or market conditions may result in the company’s inability to meet future obligations; or 4) the portfolio company’s reorganization or bankruptcy. Consideration is also given as to whether a liquidation event would be orderly or forced.

Fund management considers that the Fund’s general intent is to hold its loans to maturity when appraising its privately held debt investments. As such, Fund management believes 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, the Fund performs a yield analysis to determine if a debt security has been impaired.

Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

The Audit Committee of the Board of Directors may engage independent, third-party valuation firms to conduct independent appraisals and review management’s preliminary valuations of each privately-held investment that the Fund (a) has held for more than one year and (b) holds on its books at a fair value of at least \$2.0 million in order to make their own independent assessment. Any third-party valuation data would be considered as one of many factors in a fair value determination. The Audit Committee then would recommend the fair values for all privately-held securities based on all relevant factors to the Board of Directors for final approval.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to \$16.9 million and \$27.7 million as of March 31, 2011 and December 31, 2010, respectively, our fair value determinations may materially differ from the values that would have been used had a

ready market existed for the securities. There were no publicly traded securities as of March 31, 2011 or December 31, 2010.

On a daily basis, 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 reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including *Barron's* and *The Wall Street Journal*.

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

Investment Transactions—Investment transactions are recorded on the accrual method. 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 we own 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.

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

Interest 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 stop accruing interest on investments when we determine that interest is no longer collectible. 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 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.

Payment in Kind Interest (PIK)—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.

Current Market Conditions

Overall economic conditions have improved slightly through 2010 and continued in the first quarter of 2011 as the US economy has expanded at a modest rate. However, the economic recovery has been hampered by persistent high unemployment levels and lingering problems in the housing market. Further, the banking industry continues to experience additional bank failures as regulators continue to impose strict capital requirements. Additionally, future economic expansion and business investment is threatened by perceptions of higher taxes and healthcare costs, as well as the high levels of government deficit spending.

Market conditions for business transactions including mergers and acquisitions and private equity investments improved throughout 2010 and continuing in 2011 as low interest rates have reduced capital costs, some banks are lending more aggressively, valuations have increased and buyer and seller expectations have converged. These conditions were contributors to an upturn in transaction volume during 2010 and the first quarter 2011 since declining significantly in 2009. In addition, corporations have been deleveraging and are holding significant amounts of cash and many have begun to focus on acquisitions as part of future growth plans. Private equity firms have access to historically large amounts of committed capital as private equity activity has been lower than anticipated for nearly two years and fund raising was robust heading into the economic downturn.

Consistent with other companies in the financial services sector, our performance has been adversely affected. Between December 31, 2008 and March 31, 2011 our net asset value declined from \$9.16 per share to \$4.10 per share. This further impacted the closing price of our common stock, as it declined approximately 25.6% during 2009 and a further 21.9% during 2010 and, as of March 31, 2011, is trading at a 36.6% discount to our net asset value.

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We have continued to execute certain initiatives to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and enhance communication with shareholders. 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, sold certain of our portfolio investments for cash, and modified our investment strategy to pursue shorter term liquidation opportunities. We believe these actions continue to be necessary to protect capital and liquidity during this turbulent economic period in order to preserve and enhance shareholder value. We also expect that, because of management internalization, certain expenses of the Fund will not increase commensurate with an increase in the size of the Fund and, therefore, we can 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 its tax status as a RIC. During the three months ended March 31, 2011 and 2010, we borrowed such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on its net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends.

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. Pursuant to the restrictions in the existing line of credit, the Fund is not allowed to incur additional indebtedness unless approved by the lender.

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

The Fund reserves the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Fund as

long-term capital gains and stockholders will be able to claim their proportionate share of the federal income taxes paid on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their Fund shares by the difference between their undistributed capital gains and their tax credit.

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. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Results of Operations

Investment Income and Expense

Net investment loss after all expenses was \$0.7 million and \$0.05 million for the three months ended March 31, 2011 and March 31, 2010, respectively. The increase in net investment loss generated at March 31, 2011 compared to March 31, 2010 is due primarily to the decrease in total investment income along with the increase in total expenses for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010.

Total income from portfolio securities was \$0.4 million and \$0.8 million for the three months ended March 31, 2011 and 2010, respectively. The \$0.4 decrease was primarily due to the decline in income producing investments for the three months

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ended March 31, 2011, resulting from the monetizations of 1848 Capital Partners LLC, Big Apple Entertainment Partners LLC and London Bridge Entertainment Partners Ltd.

Total expenses increased from \$0.9 million for the three months ended March 31, 2010 to \$1.1 million for the three months ended March 31, 2011. This \$0.2 million increase was largely due to the increase in compensation expense as a result of accrued bonuses and the litigation settlement in the amount of \$0.1million for the quarter ending March 31, 2011.

Realized Gains and Losses on Sales of Portfolio Securities

During the three months ended March 31, 2011, we realized net capital losses of \$0.9 million, including the following significant transactions (in thousands):

Portfolio Company	Industry	Type	Realized Gain (Loss)
London Bridge Entertainment Partners Ltd	Entertainment and leisure	Secured and subordinated debt	(992)
RP&C International Investments LLC	Healthcare	Membership Interest	138
Various others			(1)
			\$ (855)

During the three months ended March 31, 2010, the Fund realized net capital loss of \$0.004 million from the sale of U.S. Treasury Bills.

Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Net unrealized depreciation on investments increased by \$0.2 million, during the three months ended March 31, 2011, to a net unrealized depreciation of \$27.5 million. Such increase in depreciation resulted from the following changes:

- (i) Decline in fair market value of ConGlobal Industries Holding, Inc. ("ConGlobal") of \$1.3 million due to lower storage revenues for containers.
- (ii) Transfer of unrealized depreciation to realized depreciation for London Bridge Entertainment Partners, Ltd. (London Bridge) of \$0.8 million due to the sale of the promissory note.
- (iii) Transfer of unrealized appreciation to realized appreciation for RP&C International Investments, LLC (RP&C) of \$0.1 million due to the maturity of the investment.
- (iv) Increase in fair market value of Spectrum Management, Inc. ("Spectrum") of \$0.4 million due to the extension of maturity of outstanding debt and the increase in market comparables.

Net unrealized depreciation on investments increased by \$0.7 million during the three months ended March 31, 2010, to a net unrealized depreciation of \$15.9 million. Such increase in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation, Riptide Entertainment LLC and Spectrum Management, LLC,

resulting from declining sales and trailing operations for the period. These decreases in estimated fair market value were partially offset by the increase in fair market value of Sovereign Business Forms, Inc., resulting from an increase in operations.

Dividends

On March 24, 2009, we announced that we suspended our managed distribution policy and payment of quarterly distributions for an indefinite period, following the distribution of the first quarter dividend, paid on March 30, 2009. We will continue to 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.

Portfolio Investments

During the three months ended March 31, 2011, we made a follow-on investment of \$0.03 million in Spectrum Management, LLC.

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The following table includes significant investment activity during the quarter ended March 31, 2010 (in thousands):

	New Investments		Existing Investments		
	Cash	PIK	Follow-on	PIK	Total
TruLite, Inc.	\$—	\$—	\$200	\$—	\$200
1848 Capital Partners LLC	—	—	—	71	71
London Bridge Entertainment Partners Ltd.	—	—	—	54	54
Big Apple Entertainment Partners LLC	—	—	—	40	40
	\$—	\$—	\$200	\$165	\$365

Subsequent Events

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

On April 1, 2011, the Fund sold U.S. Treasury bills for \$6.0 million and repaid the margin loan.

On April 25, 2011, the Fund received \$0.08 million from Sovereign Business Forms, Inc. in the form of a principal payment.

On April 27, 2011, the Fund announced that it had entered into two separate transactions involving the purchase of an aggregate of 11,408 bonds ("Bonds") issued by Orco Germany S.A., a commercial and multi-family residential real estate holding company and developer based in Berlin. The consideration provided to the selling bondholders consists of an aggregate of 1,700,000 newly issued shares of common stock of the Fund. The Fund received 8,890 of the Bonds on April 27, 2011. On May 9, 2011, one of these agreements was amended and restated to provide for an additional 45 days to deliver 2,518 of the Bonds in exchange for providing to the Fund approximately \$1.7 million in cash as security for such delivery.

On May 2, 2011, the Fund announced that it will hold its annual meeting of shareholders on June 10, 2011. The purpose of the meeting is to elect 9 directors, each for a term of one year; ratify the appointment of UHY LLP as the Fund's independent auditor for fiscal year ending December 31, 2011; approve, on a non-binding advisory basis, the compensation paid to the Fund's named executive officers in 2010; approve, on a non-binding advisory basis, the frequency of shareholder advisory votes concerning the Fund's executive compensation; and transact such other business as may properly come before the annual meeting.

On March 10, 2010, American General Life Insurance Company ("American General") filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former

administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees totaling approximately \$450,000. On May 11, 2011, we agreed to a settlement with American General in exchange for a one-time settlement fee of \$120,000.

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, the Fund may invest in companies outside the United States, including in Europe and Asia, which would give rise to exposure to foreign currency value fluctuations. 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.

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However, significant changes in market equity prices can have a longer-term effect on valuations of private companies, which could affect the carrying value and the amount and timing of gains or losses realized on these investments. A small portion of the investment portfolio also consists of common stocks in publicly traded companies. These investments are directly exposed to equity price risk, in that a hypothetical ten percent change in these equity prices would result in a similar percentage change in the fair value of these securities.

We are classified as a “non-diversified” investment company under the Investment Company Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called Business Products and Services include three portfolio companies and was 23.3% of the net asset value and 50.2% of our investments in portfolio company securities (at fair value) as of March 31, 2011. 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.

Item 4. Controls and Procedures

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

The Fund’s management, with the participation of the Fund’s Executive Chairman 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 March 31, 2011. Based on their evaluation, the Fund’s Executive Chairman (Principal Executive Officer) and Chief Financial Officer concluded that the Fund’s disclosure controls and procedures were effective at a reasonable assurance level. There has been no change in the Fund’s internal control over financial reporting during the quarter ended March 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Fund’s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On June 30, 2009, the Fund received a “Wells” notice from the staff of the Securities and Exchange Commission (“SEC”). Based on discussions with the SEC staff, the Fund believes that the issues the staff intends to pursue relate to a one-time administrative fee that the Fund paid in 2005 and the compensation of a certain Fund officer during approximately the same time period. The Wells notice notified the Fund that the staff intends to recommend that the SEC bring a civil action against the Fund for possible violations of the securities laws. The Fund has been cooperating with the SEC in this inquiry. In accordance with SEC procedures, the Fund has presented its perspective on these issues to the staff. The SEC has not made a formal decision regarding an enforcement proceeding in respect of the Fund.

On March 10, 2010, American General Life Insurance Company (“American General”) filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees totaling approximately \$450,000. We agreed to a settlement with American General in exchange for a one-time payment of \$120,000.

On April 26, 2010, the SEC also subpoenaed records of the Fund in connection with certain trades in the Fund’s shares by SPQR Capital LLP, SAE Capital Ltd., Versatile Systems Inc., Mobiquity Investments Limited, and anyone associated with those entities. The Fund has fully cooperated with the SEC’s request.

Item 1A. Risk Factors

There have been no material changes in the Fund’s risk factors from the disclosure set forth in the Annual Report on Form 10-K for the year ended December 31, 2010.

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Readers should carefully consider these risks and all other information contained in the annual report on Form 10-K, including the Fund's consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing the Fund. Additional risks and uncertainties not presently known to the Fund, or not presently deemed material by the Fund, may also impair its operations and performance.

Readers should carefully consider these risks and all other information contained in the annual report on Form 10-K, including the Fund's consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing the Fund. Additional risks and uncertainties not presently known to the Fund, or not presently deemed material by the Fund, may also impair its operations and performance.

Item 6. Exhibits

3. Articles of Incorporation and by-laws

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

- net income, net profit, net sales and/or net revenue

- new product development

- new product invention or innovation

- number of customers

- operating cash flow, expenses, income and/or margin

- product defect measures

- product release timelines

- productivity

- profit and/or gross margin

- publicity or publication goals

- return on assets, capital, equity, investment and/or sales
- revenue and/or revenue growth
- sales pipeline and orders
- sales results and/or growth
- stock price
- time to market
- total stockholder return
- working capital

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As determined by the compensation committee, performance goals may be based on generally accepted accounting principles, also referred to as GAAP, or based on non-GAAP results. Any actual results may be adjusted by the compensation committee for one-time items or unbudgeted or unexpected items when determining whether performance goals have been met. Goals may be evaluated on the basis of any factors the compensation committee determines relevant and may be on an individual, departmental, or company-wide basis. Performance goals may differ from participant to participant under the executive bonus plan and from award to award. In addition, our compensation committee may adjust the bonus pool established under the plan and any actual awards to be made under the plan, which may be at, below, or above targets established under the plan.

Committee Discretion. Under the executive bonus plan, the compensation committee retains authority to award compensation absent attainment of a relevant performance goal, provide for cash incentive awards in excess of the target base salary percentages, reduce or eliminate awards, or provide for partial payment if performance goals are only partially met, in each case if the compensation committee determines appropriate in its discretion. The compensation committee may determine an adjustment to a bonus payout on the basis of such factors as it deems relevant and is not required to prospectively establish any weighting with respect to the factors it considers. We believe that maintaining this flexibility is helpful in ensuring that executive officers are appropriately compensated for their performance and are neither rewarded nor penalized as a result of unusual circumstances not foreseeable at the time the goals were developed.

2017 Bonus Program. In late 2016 and early 2017, our compensation committee, in conjunction with Compensia, reviewed our executive bonus programs, including a review of their incentive structures, with an objective of ensuring that our compensation programs promote both short-term and long-term growth. With respect to our cash bonus program, the compensation committee structured the plan for the 2017 performance period with the objective of incentivizing a return to revenue growth and achievement of other strategic objectives. The compensation committee maintained the levels of target awards at 70.0% of base salary for our Chief Executive Officer and 42.5% for the other

executive officers, consistent with its philosophy of setting bonus and total cash compensation at approximately the median of our peer group.

Bonus Plan Structure. For the 2017 corporate performance period, our bonus plan was weighted 70% toward corporate goals and 30% toward individual performance as determined by the committee (with Mr. Linthwaite providing his input with respect to his direct reports). With respect to the corporate goals weighting, revenue corporate goals and cash corporate goals were each weighted at 50%. Revenue corporate goals were to be earned at 85% of target if a minimum threshold revenue was achieved, increasing on a linear basis such that 100% of the bonus award target would be earned at target revenue and continuing with no cap for substantial over-performance relative to the revenue target. Cash corporate goals were to be earned at 90% of target if a minimum threshold cash balance was achieved, increasing on a linear basis such that 100% of the bonus award target would be earned at target cash balance and continuing up to a maximum of 150% of the bonus award target for substantial over-performance relative to the company's cash balance. No bonuses would be paid under the executive bonus plan for 2017, including with respect to individual performance, if the minimum threshold revenue condition was not satisfied. The compensation committee set the threshold level of revenue and cash at an amount intended to incentivize revenue growth and effective operating expense and liquidity management.

Bonus Awards. In January 2018, our compensation committee reviewed our performance in 2017 relative to the corporate objectives identified above. The compensation committee also reviewed, with substantial input from Mr. Linthwaite with respect to the other named executive officers, each named executive officer's individual performance based in large part on achievements in the functional department overseen by the respective named executive officer. In evaluating corporate performance relative to 2017 objectives, the compensation committee determined that the company met its revenue objectives and, although it had slightly under-achieved on its cash objectives, was effective in its operating expense management. In addition, the committee credited the management team with stabilizing Fluidigm and successfully addressing the transition risks and challenges facing Fluidigm at the beginning of 2017. In large part as a result of these determinations, the committee exercised its discretion to make adjustments to pay outs under the plan to individual executive officers. The following table sets forth the target bonuses and actual bonuses for each of the named executive officers for the 2017 corporate performance period under the executive bonus plan.

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Named Executive Officer	Target Bonus	Target Bonus as Percent of 2017 Base Salary	Bonus Awarded	Bonus Awarded as Percent of 2017 Base Salary
Stephen Christopher Linthwaite President and Chief Executive Officer	\$ 380,100	70.0%	\$ 400,000	73.7%
Vikram Jog Chief Financial Officer	\$ 148,616	42.5%	\$ 141,500	40.5%
Nicholas Khadder Senior Vice President, General Counsel, and Corporate Secretary	\$ 142,269	42.5%	\$ 155,500	46.5%
Steven C. McPhail Chief Commercial Officer	\$ 148,704	42.5%	\$ 141,600	40.5%
Mai Chan (Grace) Yow Executive Vice President, Worldwide Manufacturing of Fluidigm Singapore Pte. Ltd.	\$ 136,373	42.5%	\$ 132,800	41.3%

Long-Term Equity Incentive Awards

The final component of our executive compensation program includes long-term equity incentive awards. We believe that equity awards are an effective means of aligning the interests of executive officers and stockholders, rewarding executive officers for the company's success over the long term, and providing executive officers an incentive to remain with us. We have historically granted equity awards to new executive officers upon the commencement of their employment and consider additional grants to existing executive officers annually, based on our overall corporate performance, individual performance, and the executive officers' existing equity grants and equity holdings.

Forms of Equity Awards

Prior to 2014, our executive officers and employees received equity awards only in the form of time-based stock option grants. In 2014, the compensation committee determined that it was appropriate to begin granting time-based restricted stock units in addition to stock options for both employees and executive officers based upon several factors, including the results of the 2013 Radford survey, which noted that approximately 50% of the benchmark companies granted their executive officers a mix of stock options and restricted stock units, with less than 15% of such companies granting equity awards to executive officers solely in the form of stock options; the competitive dynamics of the markets in which we recruit, with most of our larger competitors offering "full value" awards in the form of restricted stock units; and the more favorable dilutive impact of restricted stock units relative to stock option grants.

Grants of Equity Awards

2017 Grants. As a part of the 2016 Compensia survey on executive compensation, Compensia reviewed the stock options and restricted stock units awarded to our executive officers in 2016. Compensia's review concluded that, based on the grant date fair value of stock options and restricted stock units awarded to our executive officers in 2016, our executive equity compensation generally fell below the 25th percentile of the benchmark companies.

The stock options and restricted stock units awarded to our named executive officers in 2017 are set forth in the table below captioned "Grant Summary."

On February 6, 2017, our compensation committee approved and recommended to our board, and our board approved, a retention compensation program for our executive officers. The retention program, which is intended to be a supplemental equity program providing incentives to certain key employees to remain employed with the Company and focused on increasing value for the stockholders and is structured in the same manner as a retention program implemented for other employees, provides for (i) a lump sum cash payment if the individual executive officer

remains employed with us through January 1, 2019, and (ii)

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the grant of stock options and restricted stock units pursuant to our 2011 Equity Incentive Plan. The option awards vest monthly over 48 months beginning on January 1, 2017. The RSUs vest in equal quarterly installments over a period of three years on our regularly scheduled quarterly vesting dates of February 20, May 20, August 20, and November 20, beginning with the first regularly scheduled quarterly vesting date that occurred at least three months after the date of grant.

Cash and equity awards under the retention program as approved by our compensation committee and board of directors for our chief executive officer, chief financial officer, and other named executive officers were as set forth in the table below. In his discussions with the compensation committee and our board, our chief executive officer elected to receive the equity compensation set forth below in lieu of participating in the cash element of the retention program.

The table below provides a summary of the retention awards:

Named Executive Officer	Potential Cash Award	Shares Subject to Stock Option Award	Shares Subject to Restricted Stock Units
Stephen Christopher Linthwaite President and Chief Executive Officer	—	189,500	76,000
Vikram Jog Chief Financial Officer	\$ 138,400	87,400	34,600
Nicholas Khadder Senior Vice President, General Counsel, and Corporate Secretary	\$ 127,900	79,300	31,600
Steven C. McPhail Chief Commercial Officer	\$ 102,800	51,375	20,550
Mai Chan (Grace) Yow Executive Vice President, Worldwide Manufacturing of Fluidigm Singapore Pte. Ltd.	\$ 76,300	48,400	19,500

Grant Summary. The table below provides a summary of grants of equity awards to our named executive officers in 2017:

Named Executive Officer	2017			
	Time-based Stock Options(1)	Time-based Restricted Stock Units(2)	Performance-based Stock Options(3)	Performance-based Restricted Stock Units
Stephen Christopher Linthwaite President and Chief Executive Officer	259,500(4)	76,000	—	—
Vikram Jog Chief Financial Officer	110,975(5)	34,600	4,471	—
Nicholas Khadder Senior Vice President, General Counsel, and Corporate Secretary	149,443(6)	31,600	—	—
Steven C. McPhail Chief Commercial Officer	104,140(7)	20,550	4,471	—
Mai Chan (Grace) Yow Executive Vice President, Worldwide Manufacturing of Fluidigm Singapore Pte. Ltd.	118,527(8)	19,500	4,471	—

(1)

1/48th of the shares underlying the option have vested on, and have vested every month since, January 1, 2017, and 1/48th of such shares will continue to vest each month thereafter until fully vested on January 1, 2021, subject to continued service through the applicable vesting date.

(2)

4/48th of the total number of shares underlying the restricted stock units granted vested on May 20, 2017, and 3/48th of the total number of shares underlying the restricted stock units have vested and will continue to vest every three months thereafter until fully vested, subject to continued service through the applicable vesting date.

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(3)

The performance-based stock options granted in 2017 were awarded solely pursuant to our stock option exchange program.

(4)

Includes 70,000 stock options granted in 2017 pursuant to our stock option exchange program.

(5)

Includes 23,575 stock options granted in 2017 pursuant to our stock option exchange program. 4,471 performance-based stock options granted pursuant to our 2017 stock option exchange program are disclosed separately in the table.

(6)

Includes 70,143 stock options granted in 2017 pursuant to our stock option exchange program.

(7)

Includes 52,765 stock options granted in 2017 pursuant to our stock option exchange program. 4,471 performance-based stock options granted pursuant to our 2017 stock option exchange program are disclosed separately in the table.

(8)

Includes 70,127 stock options granted in 2017 pursuant to our stock option exchange program. 4,471 performance-based stock options granted pursuant to our 2017 stock option exchange program are disclosed separately in the table.

Replacement Stock Option Awards

The number of shares of our common stock underlying each replacement stock option award received by our named executive officers who participated in our recent stock option exchange program is set forth below. The table below also identifies the number of shares of our common stock underlying the options tendered in exchange for such replacement stock options. For a description of the stock option exchange program, see “— Stock Option Exchange Program” below.

Named Executive Officer	Grant Date	Number of Shares Underlying Stock Option Awards	Number of Shares Underlying Options Tendered in Exchange Therefor
Stephen Christopher Linthwaite President and Chief Executive Officer	September 20, 2017	70,000	140,000
Vikram Jog Chief Financial Officer	September 20, 2017	28,046	86,537
Nicholas Khadder Senior Vice President, General Counsel, and Corporate Secretary	September 20, 2017	70,143	106,300
Steven C. McPhail Chief Commercial Officer	September 20, 2017	57,236	102,625
		74,598	179,343

Mai Chan (Grace) Yow
Executive Vice President, Worldwide Manufacturing of
Fluidigm Singapore Pte. Ltd.

September 20,
2017

2017 Corporate Performance. In 2016, certain equity awards granted to our executive officers were subject to certain corporate performance conditions. In March 2018, our compensation committee reviewed our performance in 2017 for purposes of determining achievement of the performance based vesting conditions for each of the performance awards granted prior to 2017 that had a fiscal 2017 performance period. The compensation committee determined that because Fluidigm had not met its performance objectives relating to annual revenue, no vesting would occur with respect to the 2017 performance period.

Executive Officer Stock Ownership Guidelines

Our board of directors has approved stock ownership guidelines for our executive officers to further align their interests with the interests of our stockholders.

Pursuant to the guidelines, our chief executive officer is expected to accumulate and hold a number of shares of our common stock equal to the lesser of (i) that number of shares with a value equal to three times his annual base salary or (ii) 265,300 shares and to maintain this minimum amount of stock

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ownership throughout his tenure as chief executive officer. Under the guidelines, our other key executives, including our named executive officers other than the chief executive officer, are expected to accumulate and hold a number of shares of our common stock equal to the lesser of (i) that number of shares with a value equal to his or her annual base salary, or (ii) the number of shares determined by dividing his or her then-current annual base salary by \$6.14 and to maintain this minimum amount of stock ownership throughout his or her tenure as a covered key executive. For purposes of determining share ownership under the guidelines, shares owned includes shares owned outright and vested in-the-money stock options, but does not include value or shares attributable to unvested time vesting restricted stock, unvested and/or out-of-the money stock options and/or unearned performance shares.

Our key executive officers, including our chief executive officer and our other named executive officers, will be expected to achieve the applicable level of ownership by the end of the fiscal year that follows the five year anniversary of the date he or she becomes covered by the guidelines.

Executives covered by our guidelines, including our named executive officers, are not required to purchase shares on the open market in order to comply with the guidelines. In the event such an executive falls out of compliance with the guidelines at any time, he or she will be required to maintain 50% of the shares (net of tax and exercise costs) acquired through vesting or exercise of awards until the guidelines are again satisfied. The guidelines include a once-met-always-met policy such that each executive covered by our guidelines will be deemed to satisfy the guideline if they hold at least the number of shares that, as of the first measurement date they comply with the guidelines, was equal to the guideline value (i.e., following the initial compliance, the policy for each executive will reset to the lesser of the guideline value or the number of shares that originally satisfied the guideline).

Stock Option Exchange Program

In August 2017, our shareholders approved amendments to our 1999 Stock Option Plan, our 2009 Equity Incentive Plan, our 2011 Equity Incentive Plan and the DVS Sciences, Inc. 2010 Equity Incentive Plan to permit a one-time exchange program that allowed eligible employees, including our executive officers, to exchange outstanding options to purchase shares of our common stock granted under those plans with a per share exercise price greater than US\$5.13 for restricted stock units or new options to purchase shares of our common stock under our 2011 Equity Incentive Plan. Approximately 62.5% of the votes cast approved the amendments to our plans.

The exchange program launched on August 23, 2017, and the terms of the exchange program are described in last year's proxy statement and the Tender Offer Statement on Schedule TO originally filed with the Securities and Exchange Commission on August 23, 2017. Our non-employee directors were not eligible to participate in the exchange program.

Since a large percentage of outstanding options held by valuable employees of Fluidigm and its subsidiaries prior to the exchange had exercise prices that were substantially above the then-current price of our common stock, we believed the exchange program would (i) increase long-term stockholder value by improving our ability to incentivize and retain our employees through the cancellation of outstanding options that currently provide diminished retention or incentive value to our employees and (ii) create retention value for the company by requiring employees to "re-earn" equity awards as a result of the new equity awards received through the exchange program having new vesting schedules. Accordingly, we made the offer to foster retention of these employees, provide meaningful incentive to them, and better align their interests with those of our stockholders to maximize stockholder value. We believed that replacing the underwater options with new equity awards would be more effective in retaining and incentivizing employees than providing additional cash compensation (which could adversely affect our business) or relying entirely on grants of additional stock options at current market prices or restricted stock units (which would substantially increase our overhang and cause dilution to our stockholders).

We completed the exchange program on September 20, 2017. 115 employees elected to surrender eligible options to purchase a total of 1,204,198 shares of our common stock, representing approximately 50.02% of the total shares of common stock underlying the eligible options. All surrendered options were canceled effective as of the expiration date, and immediately thereafter, in exchange for such surrendered options, we issued (i) new options to purchase an aggregate of 399,117 shares of our common stock with an

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exercise price of \$5.13; and (ii) restricted stock units representing 54,944 shares of our common stock, each, pursuant to the terms of the exchange program and our 2011 Equity Incentive Plan. The new awards granted under the exchange program generally vest over three years.

Through the exchange program, employees having a title of Vice President or above, including our executive officers, received new awards in the form of stock options. As a result, our executives only received value for their new equity awards based on positive stock price performance, which the committee believes aligns the interests of our executives with our stockholders. Our named executive officers surrendered options covering the numbers of shares listed in the table below for new options to purchase the numbers of shares listed in the table below at a per share exercise price of \$5.13, which was the closing price of a share of our common stock on the NASDAQ Global Select Market on September 20, 2017. One-twelfth of each new option granted through the exchange program vests in equal quarterly installments over a period of three years on our regularly scheduled quarterly vesting dates of February 20, May 20, August 20, and November 20, beginning with the regularly scheduled quarterly vesting date on February 20, 2018. Vesting of each executive officer's new options is subject to the executive officer's continued service through each relevant vesting date.

Named Executive Officer	No. of Shares Subject to Eligible Option	No. of Shares Subject to New Option Granted ⁽¹⁾
Stephen Christopher Linthwaite President and Chief Executive Officer	140,000	70,000
Vikram Jog Chief Financial Officer	86,537	28,046
Steven C. McPhail Chief Commercial Officer	102,625	57,236
Mai Chan (Grace) Yow Executive Vice President, Worldwide Manufacturing of Fluidigm Singapore Pte. Ltd.	179,343	74,598
Nicholas Khadder Senior Vice President, General Counsel, and Corporate Secretary	106,300	70,143

(1)

The incremental fair values, computed as of September 20, 2017, in accordance with FASB ASC Topic 718, of the new options granted in exchange for the options surrendered in the exchange program in 2017 was \$0.

We believe that the replacement of our executive officers' underwater options with new options through the exchange program achieved the purposes of the exchange program in that our executive officers will only receive value for their new options by (i) driving positive stock price performance and increasing long-term stockholder value and (ii) "re-earning" the new options through continued service with the company.

Other Benefits

Change of Control and Severance Plan

Each of our executive officers are participants in our Change of Control and Severance Plan which we adopted in August 2017, which provides for specified payments and benefits if the executive officer's employment is terminated for a reason other than for cause, death or disability, or if the executive officer's employment is terminated by the executive officer for good reason, with the payments and benefits provided generally greater if such termination occurs in connection with a change of control. The terms of our executive officers' participation in the Change of Control and Severance Plan are described under the section entitled "Executive Compensation — Potential Payments upon Termination or Change of Control." We adopted the Change of Control and Severance Plan because we recognize that we will from time to time consider the possibility of an acquisition by another company or other change of control

transaction and that such consideration can cause such executive officers to consider alternative employment opportunities.

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Accordingly, our board of directors concluded that it is in the best interests of our company and our stockholders to provide assurances of specified benefits to certain of our employees, including our executive officers, whose employment is subject to being involuntarily terminated other than for death, disability, or cause or voluntarily terminated for good reason under the circumstances described in the plan. Our board determined to provide such executive officers with certain severance benefits upon their termination of employment without cause outside of the change of control context in order to provide executive officers with enhanced financial security and incentive to remain with our company. In addition, we believe that providing for acceleration of equity awards if an executive officer is terminated following a change of control transaction aligns the executive officer's interest more closely with those of other stockholders when evaluating the transaction rather than putting the executive officer at risk of losing the benefits of those equity incentives.

In determining the amount of cash payments, benefits coverage, and acceleration of vesting to be provided to executive officers upon termination, our board considered the following factors:

- the expected time required for an executive officer to find comparable employment following a termination event;
- feedback received from potential candidates for executive officer positions at our company as to the level of severance payments and benefits they would require to leave other employment and join our company;
- in the context of a change of control, the amount of vesting acceleration that would align the executive officer's interests more closely with the interests of stockholders when considering a potential change of control transaction; and
- the period of time following a change of control during which management positions are evaluated and subject to a heightened risk of elimination.

Split Dollar Life Insurance

The Company has entered into an agreement with Mr. Linthwaite to pay the full amount of the premium of a life insurance policy covering Mr. Linthwaite with an initial face amount of \$2,500,000. We entered into this agreement for the purposes of ensuring Mr. Linthwaite's focus on increasing value for the stockholders. The value of the Company's payment of such premiums is treated as taxable income to Mr. Linthwaite. In the event of Mr. Linthwaite's death, Mr. Linthwaite's designated beneficiaries will receive \$2,000,000 of the proceeds from the life insurance policy, and the Company will receive the remainder of the proceeds. The Company is entitled to 100% of the policy's cash value, less any policy loans and unpaid interest or prior cash withdrawals. The agreement will terminate upon the first to occur of: (1) Mr. Linthwaite's termination of employment for any reason before age 65; (2) Mr. Linthwaite's reaching the age of 65 while employed by the Company; or (3) the surrender, lapse, or other termination of the life insurance policy by the Company.

Employee Benefits

Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, group life, disability, accidental death and dismemberment insurance, and our 401(k) plan, in each case on the same basis as other employees, subject to applicable law. Subject to applicable limits, we match contributions made to U.S.-based employees' 401(k) defined contribution plans to a maximum of \$2,000 per year. We also provide vacation and other paid holidays to all employees, including our executive officers, which we believe are comparable to those provided at peer companies.

Accounting and Tax Considerations

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, or Section 162(m), places a limit of \$1,000,000 on the amount of compensation that we can deduct as a business expense in any year with respect to our Chief Executive

Officer and certain of our other executive officers.

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We would have been able to deduct compensation paid to these executive officers in 2017 that was in excess of this limit if the compensation was “performance-based” under Code Section 162(m). We did not structure any of our compensation to our executive officers in 2017 to qualify as performance-based compensation because the requirements that must be met in order to do so reduces our flexibility in structuring our compensation program for our executive officers and we would not have benefitted from having the compensation qualify as performance-based compensation. Recent tax reform legislation expanded the number of individuals covered by Section 162(m) of the Code and eliminated the exception for “performance-based” compensation beginning in 2018.

Taxation of Nonqualified Deferred Compensation

Section 409A of the Internal Revenue Code of 1986, as amended, or Section 409A, imposes additional taxes on certain non-qualified deferred compensation arrangements that do not comply with its requirements. These requirements regulate an individual’s election to defer compensation and the individual’s selection of the timing and form of distribution of the deferred compensation. Section 409A generally also provides that distributions of deferred compensation only can be made on or following the occurrence of certain events (i.e., the individual’s separation from service, a predetermined date, a change in control, or the individual’s death or disability). For certain executive officers, Section 409A requires that such individual’s distribution commence no earlier than six months after such officer’s separation from service. We have and will continue to endeavor to structure our compensation arrangements to comply with Section 409A so as to avoid the adverse tax consequences associated therewith.

Accounting for Stock-Based Compensation

The compensation committee takes accounting considerations into account in designing compensation plans and arrangements for our executive officers and other employees. Chief among these is Financial Accounting Standards Board Accounting Standards Codification Topic 718 (“ASC Topic 718”), the standard which governs the accounting treatment of stock-based compensation awards.

ASC Topic 718 requires us to recognize in our financial statements all share-based payment awards to employees, including grants of options to purchase shares of our common stock and restricted stock awards that may be settled for shares of our common stock to our executive officers, based on their fair values. The application of ASC Topic 718 involves significant amounts of judgment in the determination of inputs into the Black-Scholes valuation model that we use to determine the fair value of stock options. These inputs are based upon assumptions as to the volatility of the underlying stock, risk free interest rates, and the expected life (term) of the options. As required under GAAP, we review our valuation assumptions at each grant date, and, as a result, our valuation assumptions used to value stock options granted in future periods may vary from the valuation assumptions we have used previously. For certain performance-based equity awards, we also must apply judgment in determining the periods when, and if, the achievement of the related performance targets becomes probable.

ASC Topic 718 also requires us to recognize the compensation cost of our share-based payment awards in our statement of operations over the period that an employee, including our executive officers, is required to render service in exchange for the award (which, generally, will correspond to the award’s vesting schedule).

Risk Management Considerations

In setting compensation, our compensation committee strives to create incentives that encourage a level of risk-taking consistent with our business strategy and to encourage a focus on building long-term value that does not encourage excessive risk-taking. In connection with its oversight of compensation-related risks, our compensation committee has reviewed our compensation programs and practices for employees, including executive and non-executive programs and practices. In its review, our compensation committee evaluated whether our policies and programs encourage unnecessary or excessive risk-taking and controls, and how such policies and programs are structured with respect to risks and rewards, as well as controls designed to mitigate any risks. As a result of this review, our compensation committee determined that any risks that may result from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on Fluidigm.

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Compensation Committee Report

The compensation committee oversees Fluidigm's compensation policies, plans, and benefit programs. The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on such review and discussions, the compensation committee has recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

The Compensation Committee

Gerhard F. Burbach (Chair)

Samuel D. Colella

Nicolas Barthelemy

The Compensation Committee Report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing by Fluidigm under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent Fluidigm specifically incorporates the Compensation Committee Report by reference therein.

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The following table provides information regarding the compensation of our Chief Executive Officer, Chief Financial Officer, each of the next three most highly compensated executive officers during 2017, together referred to as our “named executive officers,” for 2017, 2016, and 2015.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)(2)	All Other Compensation (\$)	Total (\$)
Stephen Christopher Linthwaite President and Chief Executive Officer(3)	2017	521,500	468,160(4)	591,695(4)	400,000	38,515(5)	2,019,870
	2016	197,349	126,700	872,746	—	2,000	1,198,795
Vikram Jog Chief Financial Officer	2017	344,592	213,136(4)	272,898(4)	141,500	2,000(6)	974,126
	2016	339,500	76,680	80,939	—	2,000	499,199
	2015	329,600	197,472	237,772	—	2,000	766,844
Nicholas Khadder(7) Senior Vice President, General Counsel, and Corporate Secretary	2017	326,125	194,656	247,606(4)	155,500	1,323(6)	925,210
	2016	173,580	97,740	101,671	—	1,323	374,314
Steven C. McPhail(8) Chief Commercial Officer	2017	344,796	126,588(4)	160,413(4)	141,600	2,000(6)	775,397
	2016	339,700	92,820	80,939	—	2,000	515,459
	2015	216,955	312,852	350,006	—	2,000	881,813
Mai Chan (Grace) Yow Executive Vice President, Worldwide Manufacturing of Fluidigm Singapore Pte.	2017	337,231(9)	120,120(4)	151,124(4)	132,800	7,023(9)(10)	748,298
	2016	294,856(11)	76,680	80,939	—	7,127(11)	459,602
	2015	286,329(12)	320,892	237,772	—	7,243(12)	852,236

(1)

Amounts represent the aggregate grant date fair value of equity awards granted to the named executive officer in the year indicated (other than the new options granted in exchange for the options surrendered in the exchange program in 2017) calculated in accordance with FASB Topic ASC 718 without regard to estimated forfeitures. The 2016 performance stock options and performance RSUs were valued on the target outcome of performance-based conditions (i.e., based on 100% achievement). See Note 9 of the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of assumptions

made in determining the grant date fair value and compensation expense of our equity awards.

(2)

The amounts in this column represent total performance-based bonuses earned under our executive bonus plan for service rendered during the applicable year. All such amounts were paid subsequent to year end. For a description of our executive bonus plan, please see the section entitled “Executive Bonus Plan” under “Compensation Discussion and Analysis” above.

(3)

Mr. Linthwaite joined Fluidigm as our Chief Operating Officer and President on August 4, 2016. On October 19, 2016, he was appointed our Chief Executive Officer and President. Mr. Linthwaite was not named an executive officer prior to 2016.

(4)

Includes time-based restricted stock units and option awards that were granted as retention awards to the applicable named executive officer. See “Other Benefits — Retention Bonuses” under “Compensation Discussion and Analysis” above.

(5)

Consists of company contributions of \$2,000 made to Mr. Linthwaite’s 401(k) defined contribution plan, \$27,500 of payments made by the Company for life insurance policy premiums in 2017, and \$9,015 of payments made by the Company in disability insurance premiums.

(6)

Consists of company contributions made to the applicable named executive officer’s 401(k) defined contribution plan.

(7)

Mr. Khadder joined Fluidigm as our Senior Vice President, General Counsel, and Corporate Secretary on June 6, 2016. Mr. Khadder was not named an executive officer prior to 2016.

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(8)

Mr. McPhail joined Fluidigm as General Manager, Production Genomics in May 2015 and became our Chief Commercial Officer in August 2016.

(9)

Based on conversion of Singapore Dollars (SGD) to US Dollars (USD) at a rate of 1 SGD to 0.7430 USD, the average conversion rate for the period beginning December 1, 2017 to December 31, 2017.

(10)

Consists of company contributions made to Ms. Yow's Central Providence Fund.

(11)

Based on conversion of Singapore Dollars (SGD) to US Dollars (USD) at a rate of 1 SGD to 0.6964 USD, the average conversion rate for the period beginning December 1, 2016 to December 31, 2016.

(12)

Based on conversion of Singapore Dollars (SGD) to US Dollars (USD) at a rate of 1 SGD to 0.7101 USD, the average conversion rate for the period beginning December 1, 2015 to December 31, 2015.

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The following table presents information concerning each grant of an award made to a named executive officer in 2017 under any plan.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (\$)(1)			Estimated Future Payments Under Equity Incentive Plan Awards (#)			All Stock Awards: Number of Shares of Stock or Units (#)	All Option Awards: Number of Securities Underlying Options (#)
		Threshold	Target	Maximum	Threshold	Target	Maximum		
Stephen Christopher Linthwaite	02/13/2017	—	—	—	—	—	—	76,000(4)	—
	02/13/2017	—	—	—	—	—	—	—	189,500(6)
	04/24/2017(5)	247,065	380,100	459,921	—	—	—	—	—
	09/20/2017	—	—	—	—	—	—	—	70,000(6)
	02/13/2017	—	—	—	—	—	—	34,600(4)	—
Vikram Jog	02/13/2017	—	—	—	—	—	—	—	87,400(4)
	04/24/2017(5)	96,600	148,616	179,826	—	—	—	—	—
	09/20/2017	—	—	—	—	—	—	—	967(6)
	09/20/2017	—	—	—	—	—	—	—	3,444(6)
	09/20/2017	—	—	—	—	—	—	—	6,609(6)
	09/20/2017	—	—	—	—	—	—	—	1,541(6)
	09/20/2017	—	—	—	—	—	—	—	2,073(6)
	09/20/2017	—	—	—	—	—	—	—	8,941(6)
	09/20/2017	—	—	—	—	—	—	—	4,471(6)
	02/13/2017	—	—	—	—	—	—	31,600(4)	—
Nicholas Khadder	02/13/2017	—	—	—	—	—	—	—	79,300(4)
	04/24/2017(5)	92,475	142,269	172,145	—	—	—	—	—
	09/20/2017	—	—	—	—	—	—	—	13,500(6)
	09/20/2017	—	—	—	—	—	—	—	56,643(6)
	02/13/2017	—	—	—	—	—	—	20,550(4)	—
Steven C. McPhail	02/13/2017	—	—	—	—	—	—	—	51,375(4)
	04/24/2017(5)	96,657	148,704	179,931	—	—	—	—	—
	09/20/2017	—	—	—	—	—	—	—	7,127(6)
	09/20/2017	—	—	—	—	—	—	—	8,941(6)
	09/20/2017	—	—	—	—	—	—	—	4,471(6)
	09/20/2017	—	—	—	—	—	—	—	36,697(6)
	02/13/2017	—	—	—	—	—	—	19,500(4)	—
	02/13/2017	—	—	—	—	—	—	—	48,400(4)
	04/24/2017(5)	88,643(7)	136,373(7)	165,011(7)	—	—	—	—	—
	09/20/2017	—	—	—	—	—	—	—	242(6)
Mai Chan (Grace) Yow	09/20/2017	—	—	—	—	—	—	—	4,920(6)

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09/20/2017	—	—	—	—	—	—	—	17,838(6)
09/20/2017	—	—	—	—	—	—	—	1,541(6)
09/20/2017	—	—	—	—	—	—	—	2,073(6)
09/20/2017	—	—	—	—	—	—	—	8,941(6)
09/20/2017	—	—	—	—	—	—	—	4,471(6)
09/20/2017	—	—	—	—	—	—	—	34,572(6)

(1)

The target amounts shown in this column reflect our annual incentive plan awards provided under our 2017 executive bonus plan. The maximum amounts in this column reflect the greatest payouts that could be made if pre-established maximum performance levels were met or exceeded. Actual 2017 executive bonus plan payouts are reflected in the non-equity incentive plan compensation column of the Summary Compensation Table.

(2)

Based upon the closing sale price of our common stock as reported on the NASDAQ Global Select Market on the date of grant.

(3)

Option awards listed with a grant date of September 20, 2017 were granted in connection with our recent stock option exchange program, and the amount reported for any such award reflects the

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incremental fair value of such award in excess, if any, of the fair value of the options surrendered in exchange therefor, calculated in accordance with ASC 718. All other amounts reported represent the grant date fair value of the equity awards, calculated in accordance with FASB ASC Topic 718 without regard to estimated forfeitures. See Note 9 of the notes to our audited consolidated financial statements for a discussion of assumptions made in determining the grant date fair value.

(4)

Represents awards granted under our 2011 Equity Incentive Plan.

(5)

Corresponds to the date on which our compensation committee set the target bonus amounts payable to each of our named executive officers pursuant to our 2017 executive bonus plan. Under our 2017 executive bonus plan, the payouts were based on achievement of company and individual performance goals, as discussed in the section of our Compensation Discussion & Analysis titled “Executive Bonus Plan — Bonus Plan Structure.” The portion of the bonus subject to revenue achievement was not subject to an aggregate cap in 2017.

(6)

Reflects replacement stock option awards granted in connection with our recent stock option exchange program.

(7)

Based on conversion of Singapore Dollars (SGD) to US Dollars (USD) at a rate of 1 SGD to 0.7430 USD, the average conversion rate for the period beginning December 1, 2017 to December 31, 2017.

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Outstanding Equity Awards at Fiscal Year-End

The following table presents information concerning unexercised options and unvested stock awards outstanding as of December 31, 2017 for each named executive officer. Each outstanding equity award was granted pursuant to our 2011 Equity Incentive Plan.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Stephen	40,833(1)	99,167	—	4.99	11/8/2026	60,167(2)	354,384(3)	—	—
Christopher	43,426(4)	146,074	—	6.16	2/13/2027	—	—	—	—
Linthwaite	—	70,000(5)	—	5.13	9/20/2027	—	—	—	—
	20,028(4)	67,372	—	6.16	2/13/2027	234(6)	1,378(3)	—	—
	—	4,471(5)	—	5.13	9/20/2027	1,401(7)	8,252(3)	—	—
	—	967(5)	—	5.13	9/20/2027	2,926(8)	17,234(3)	—	—
Vikram Jog	—	8,941(5)	—	5.13	9/20/2027	27,392(2)	161,339(3)	—	—
	—	2,073(5)	—	5.13	9/20/2027	—	—	2,700(9)	—
	—	1,541(5)	—	5.13	9/20/2027	—	—	—	—
	—	6,609(5)	—	5.13	9/20/2027	—	—	—	—
	—	3,444(5)	—	5.13	9/20/2027	—	—	—	—
Nicholas	—	56,643(5)	—	5.13	9/20/2027	6,975(10)	41,083(3)	—	—
Khadder	—	13,500(5)	—	5.13	9/20/2027	25,017(2)	147,350(3)	—	—
	—	4,471(5)	—	5.13	9/20/2027	4,650(7)	27,389(3)	—	—
Steven C.	—	36,697(5)	—	5.13	9/20/2027	2,926(8)	17,234(3)	—	—
McPhail	—	8,941(5)	—	5.13	9/20/2027	16,269(2)	95,824(3)	—	—
	—	7,127(5)	—	5.13	9/20/2027	—	—	2,700(9)	—
	—	242(5)	—	5.13	9/20/2027	234(6)	1,378(3)	—	—
	—	34,572(5)	—	5.13	9/20/2027	2,276(7)	13,406(3)	—	—
Mai Chan	—	8,941(5)	—	5.13	9/20/2027	2,926(8)	17,234(3)	—	—
(Grace)	—	2,073(5)	—	5.13	9/20/2027	15,438(2)	90,930(3)	—	—
Yow	—	1,541(5)	—	5.13	9/20/2027	—	—	2,700(9)	—
	—	17,838(5)	—	5.13	9/20/2027	—	—	—	—
	—	4,920(5)	—	5.13	9/20/2027	—	—	—	—
	—	4,471(5)	—	5.13	9/20/2027	—	—	—	—

(1)

12/48th of the shares subject to the option vested on October 19, 2017 and 1/48th of the shares subject to the option have vested and will continue to vest each month thereafter such that the option will be fully vested on October 19, 2020. Vesting is subject to continued service through the applicable vesting date.

(2)

4/48th of the total number of shares underlying the restricted stock units granted vested on May 20, 2017, and 3/48th of the total number of shares underlying the restricted stock units granted have vested and will continue to vest every three months thereafter until fully vested. Vesting is subject to continued service through the applicable vesting date.

(3)

Based on the closing price of our common stock of \$5.89 per share on December 29, 2017, as reported on the NASDAQ Global Select Market, and the number of the restricted stock units that had not vested as of December 31, 2017.

(4)

15/48th of the total number of shares subject to the option had vested as of March 1, 2018, and 1/48th of the shares subject to the option and will continue to vest each month thereafter such that the option will be fully vested on January 1, 2021. Vesting is subject to continued service through the applicable vesting date.

(5)

1/12th of the total number of shares subject to the option will vest on February 20, 2018, and 1/12th of the shares subject to the option will vest every three months thereafter until fully vested. Vesting is subject to continued service through the applicable vesting date.

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(6)

4/48th of the shares underlying the restricted stock units vested on May 20, 2014 and 3/48th of the shares underlying the restricted stock units granted have vested and will continue to vest every three months thereafter until fully vested. Vesting is subject to continued service through the applicable vesting date.

(7)

4/48th of the shares underlying the restricted stock units vested on May 20, 2015 and 3/48th of the shares underlying the restricted stock units granted have vested and will continue to vest every three months thereafter until fully vested. Vesting is subject to continued service through the applicable vesting date.

(8)

4/48th of the shares underlying the restricted stock units vested on May 20, 2016 and 3/48th of the shares underlying the restricted stock units granted have vested and will continue to vest every three months thereafter until fully vested. Vesting is subject to continued service through the applicable vesting date.

(9)

These performance-based restricted stock units covered two annual periods (fiscal 2016 and fiscal 2017). For each of the two fiscal years, the performance award were eligible to vest based on the growth in our revenues (as compared to the previous fiscal year). If the actual growth rate for a given fiscal year equaled or exceeded the target, 100% of the portion of the performance award covering that fiscal year would be eligible to vest. If the actual growth rate equaled a certain minimum growth rate, 50% of the portion of the performance award covering that fiscal year would have been eligible to vest. For achievement between minimum and target growth rates, eligibility to vest scaled linearly between 50% and 100%. If the level of achievement had been certified, the performance awards for the given fiscal year that became eligible to vest would have vested according to the following time-based schedule: (1) 50% immediately upon the date the actual growth rate was certified, (2) 25% on the one-year anniversary of the certification date, and (3) 25% on the two-year anniversary of the certification date. Vesting was subject to continued service through the applicable vesting date. In March 2018, our compensation committee reviewed our performance in 2017 for purposes of determining achievement of the performance based vesting conditions for each of the performance awards granted prior to 2017 that had a fiscal 2017 performance period. The compensation committee determined that because Fluidigm had not met or exceeded its performance objectives relating to annual revenue, no vesting would occur with respect to the 2017 performance period.

(10)

14/48th of the shares underlying the restricted stock units vested on August 20, 2017 and 3/48th of the shares underlying the restricted stock units granted have vested and will continue to vest every three months thereafter until fully vested. Vesting is subject to continued service through the applicable vesting date.

Option Exercises and Stock Vested in 2017

The following table provides additional information about the value realized by the named executive officers upon option award exercises and the vesting of restricted stock unit awards during the year ended December 31, 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
Stephen Christopher Linthwaite	—	—	15,833	77,091

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Vikram Jog	—	—	11,158	56,071
Nicholas Khadder	—	—	10,408	47,400
Steven C. McPhail	—	—	8,731	44,474
Mai Chan (Grace) Yow	—	—	8,762	44,734

(1)

Value realized on vesting of stock awards is based on the closing price of our common stock on the vesting date and does not necessarily reflect actual proceeds received.

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As of December 31, 2017, our named executive officers had not been awarded any equity awards other than stock options, restricted stock units, and performance stock units.

Pension Benefits & Nonqualified Deferred Compensation

We do not provide a pension plan for our employees and no named executive officers participated in a nonqualified deferred compensation plan during the fiscal year ended December 31, 2017.

Potential Payments Upon Termination or Change of Control

On August 21, 2017, the compensation committee of our board of directors approved a Change of Control and Severance Plan (“Severance Plan”) under which our named executive officers, other executive officers, and certain other designated employees are eligible to receive severance benefits.

We adopted the Severance Plan because we recognize that we will from time to time consider the possibility of an acquisition by another company or other change of control transaction and that such consideration can cause such executive officers to consider alternative employment opportunities.

We have entered into individual participation agreements with each of our named executive officers under our Change of Control and Severance Plan (our “Severance Plan”), which provides for the following payments and benefits if the named executive officer’s employment with us is terminated in certain circumstances.

Under the Severance Plan, if any named executive officer’s employment is terminated outside of the period beginning 3 months before a change of control (as defined in the Severance Plan) and ending 12 months after a change of control (such period, the “Change of Control Period”) for a reason other than cause or the named executive officer’s death or disability (as such terms are defined in the Severance Plan), then, subject to the Severance Conditions (as defined below), the named executive officer will be entitled to receive the following severance benefits:

- Continued payments (less applicable withholdings) totaling 75% of the named executive officer’s annual base salary in effect as of the date of termination in equal installments over a period of nine months (or, in the case of Mr. Linthwaite, our President and CEO, 200% of his annual base salary paid in equal installments over a period of 24 months) following his termination.

- Reimbursement of costs of continued health coverage for the named executive officer, his or her spouse, and/or his or her dependents, as applicable, for a period of up to 9 months (or, in Mr. Linthwaite’s case, 12 months) following termination.

- Reasonable outplacement services in accordance with any applicable policy of ours that is in effect as of the named executive officer’s termination (or if no such policy is in effect, as determined by us).

Under the Severance Plan, if any named executive officer’s employment is terminated within the Change of Control Period either (i) by us for a reason other than cause or the named executive officer’s death or disability or (ii) by the named executive officer for good reason (as defined in the named executive officer’s participation agreement under the Severance Plan), then, subject to the Severance Conditions, the named executive officer will be entitled to receive the following severance benefits:

- A lump-sum payment (less applicable withholdings) totaling 150% (or, in Mr. Linthwaite’s case, 200%) of the sum of (x) his or her annual base salary (as in effect immediately before termination or immediately before the change of control, whichever is higher) plus (y) the greater of (A) his or her annual target bonus (as in effect immediately before termination or immediately before the change of control, whichever is higher) or (B) the average of the annual bonuses actually paid to him or her for the three fiscal years preceding the year in which his or her termination occurs.

- Reimbursement of costs of continued health coverage for the named executive officer, his or her spouse, and/or his or her dependents, as applicable, for a period of up to 18 months (or, in Mr. Linthwaite’s case, 24 months) following

termination.

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• 100% vesting acceleration of his or her then-outstanding and unvested equity awards, provided that, if an equity award is to vest and/or the amount of the award to vest is to be determined based on the achievement of performance criteria, then, unless otherwise provided in the applicable equity award agreement, 100% of such equity award will vest assuming the applicable performance criteria had been achieved at target levels for the relevant performance period(s).

• Reasonable outplacement services in accordance with any applicable policy of ours that is in effect as of the named executive officer's termination (or if no such policy is in effect, as determined by us), except that such outplacement services will be in no case less than the outplacement services provided under any applicable policy of ours that is in effect immediately prior to the applicable change of control.

The Severance Plan superseded the severance benefits provided to our named executive officers under the Company's previous existing forms of amended and restated employment and severance agreement. To receive the Severance Plan benefits, the named executive officer would also be required sign and not revoke a separation and release of claims agreement in a form reasonably satisfactory to us within the period set forth in the Severance Plan and be in compliance with any confidentiality, proprietary information and inventions assignment agreement and any other appropriate agreement between the named executive officer and us (together, the "Severance Conditions").

If any of the severance and other benefits provided for in the Severance Plan or otherwise payable to a named executive officer ("280G Payments") constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code and could be subject to excise tax under Section 4999 of the Internal Revenue Code, then the 280G Payments will be delivered in full or delivered as to such lesser extent which would result in no portion of such benefits being subject to excise tax, whichever results in the greater amount of after-tax benefits to such named executive officer. The Severance Plan does not require us to provide any tax gross-up payment to any named executive officer participating in the Severance Plan.

Subject to earlier termination in accordance with the terms and conditions of the Severance Plan, the Severance Plan will automatically terminate 3 years following its adoption by the Compensation Committee, but if a change of control occurs, the expiration date of the Severance Plan will be extended automatically through the date 12 months following a change of control.

The following table describes the payments and benefits that each of our named executive officers would be entitled to receive pursuant to the Severance Plan, assuming that each of the following triggers occurred on December 31, 2017: (i) their employment was terminated for a reason other than for "cause" or the named executive officer's death or "disability" more than 3 months prior to or after 12 months following a "change of control" and (ii) their employment was terminated for a reason other than for "cause" or the named executive officer's death or "disability" or by them for "good reason" within 3 months prior to or 12 months following a "change of control."

Name	Employment Terminated for reason other than Cause, death, or Disability more than 3 months prior to, or more than 12 Months after, a Change of Control		Employment Terminated for reason other than "Cause," death or Disability within 3 months prior to or 12 Months after a Change of Control(1)		
	Severance Payments (\$)	Health Care Benefits (\$)	Equity Acceleration (\$)(2)	Severance Payments (\$)	Health Care Benefits (\$)
Stephen Christopher Linthwaite	1,086,000(3)	31,535(4)	561,561	1,846,200(5)	63,070(6)
Vikram Jog	262,264(7)	23,651(8)	243,975	747,452(9)	47,303(10)
Nicholas Khadder	251,063(7)	25,374(8)	257,350	715,529(9)	50,748(10)
Steven C. McPhail	262,418(7)	23,651(8)	213,968	747,893(9)	47,303(10)

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Mai Chan (Grace) Yow(11)	240,659(7)	1,513(12)	209,640	685,877(9)	3,027(13)
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(1)

Includes termination of the employee's employment by the company or its successor without "cause" and termination by the employee for "good reason."

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(2)

We estimate the value of the acceleration of options and restricted stock units held by the named executive officer based on the closing stock price of our common stock of \$5.89 per share on December 29, 2017 (the last trading day of 2017), as reported on the NASDAQ Global Select Market, and the number of unvested in-the-money options and shares held by such named executive officer as of December 31, 2017.

(3)

The amount shown is equal to 200% of Mr. Linthwaite's annual base salary as of December 31, 2017.

(4)

The amount shown is equal to the cost of covering Mr. Linthwaite and his eligible dependents under our benefit plans for a period of 12 months, assuming that such coverage is timely elected under COBRA.

(5)

The amount shown is equal to 200% of the sum of (a) Mr. Linthwaite's annual base salary as of December 31, 2017, plus (b) his annual target bonus as of December 31, 2017.

(6)

The amount shown is equal to the cost of covering Mr. Linthwaite and his eligible dependents under our benefit plans for a period of 24 months, assuming that such coverage is timely elected under COBRA.

(7)

The amount shown is equal to 75% of the named executive officer's annual base salary as of December 31, 2017.

(8)

The amount shown is equal to the cost of covering the named executive officer and his eligible dependents under our benefit plans for a period of nine months, assuming that such coverage is timely elected under COBRA for such U.S.-based named executive officer.

(9)

The amount shown is equal to 150% of the sum of (a) the named executive's annual base salary as of December 31, 2017, plus (b) his or her annual target bonus as of December 31, 2017.

(10)

The amount shown is equal to the cost of covering the named executive officer and his eligible dependents under our benefit plans for a period of 18 months, assuming that such coverage is timely elected under COBRA for such U.S.-based named executive officer.

(11)

Based on conversion of Singapore Dollars (SGD) to US Dollars (USD) at a rate of 1 SGD to 0.7430 USD, the average conversion rate for the period beginning December 1, 2017 to December 31, 2017.

(12)

Ms. Yow is based in Singapore and is not eligible to participate in COBRA. The amount shown is equal to the cost of covering Ms. Yow and her eligible dependents under the applicable health care benefit plan in Singapore for a period of nine months.

(13)

Ms. Yow is based in Singapore and is not eligible to participate in COBRA. The amount shown is equal to the cost of covering Ms. Yow and her eligible dependents under the applicable health care benefit plan in Singapore for a period

of 18 months.

In addition to the benefits described above, our 2011 Equity Incentive Plan, 2009 Equity Incentive Plan, 1999 Stock Option Plan, and 2017 Inducement Award Plan provide for full acceleration of all outstanding options in the event of a change of control of our company where the successor company does not assume our outstanding options and other awards in connection with such acquisition transaction. We estimate the value of this benefit for each named executive officer to be equal to the amount listed above in the column labeled "Equity Acceleration."

CEO Pay Ratio

Under SEC rules, we are required to provide the following information regarding the relationship between the annual total compensation of Mr. Linthwaite, our Chairman, President and Chief Executive Officer, and the median annual total compensation of our employees (other than Mr. Linthwaite) for fiscal 2017:

-

Mr. Linthwaite's annual total compensation, as reported in the Summary Compensation Table included in this proxy statement, which was \$2,019,870.

-

The median of the annual total compensation of all employees (other than Mr. Linthwaite) of the Company (including our consolidated subsidiaries) was \$85,468.

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Based on the above, for 2017, the ratio of Mr. Linthwaite's annual total compensation to the median of the annual total compensation of all employees was 24 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K under the Securities Act of 1933, as amended. We determined the median of the annual total compensation of our employees as of December 31, 2017, at which time we (including our consolidated subsidiaries) had 512 full-time, part-time, and temporary employees (excluding Mr. Linthwaite), consisting of 215 U.S. employees and 297 (or approximately 58% of our total employee population) employees located outside of the United States. In accordance with the permitted methodology for determining the "median employee", we excluded all 7 of our employees in Japan from our calculations under the 5% de minimis exception. We then compared the annual base salary for salaried employees (or for hourly employees, hourly rate multiplied by expected annual work schedule) for 2017 and target incentive compensation and commissions for 2017 to determine the median employee. Once we identified our median employee, we estimated such employee's annual total compensation in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, yielding the median annual total compensation disclosed above. With respect to the annual total compensation of Mr. Linthwaite, we used the amount reported in the "Total" column in the Summary Compensation Table included in this proxy statement.

Equity Compensation Plan Information

The following table summarizes the number of outstanding options and restricted stock units granted to our employees, consultants, and directors, as well as the number of shares of common stock remaining available for future issuance, under our equity compensation plans as of December 31, 2017.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders			
1999 Stock Option Plan(1)	3,301	\$ 19.32	—
2009 Equity Incentive Plan(2)	105,705	\$ 6.47	—
2011 Equity Incentive Plan(3)	3,339,868	\$ 7.04	2,348,587
2017 Employee Stock Purchase Plan(4)	—	—	949,739
Equity compensation plans not approved by security holders			
DVS Sciences, Inc. 2010 Equity Incentive Plan(5)	40,184	\$ 1.01	—
2017 Inducement Award Plan(6)	12,000	—	1,988,000
Total	3,501,058	\$ 6.94	5,286,326

(1)

The 1999 Stock Option Plan was replaced by the 2009 Equity Incentive Plan in April 2009. A total of 381,495 shares remaining available for grant under the 1999 Stock Option Plan were transferred to the 2009 Equity Incentive Plan and the 1999 Stock Option Plan was terminated for any new grants.

(2)

The 2009 Equity Incentive Plan was replaced by the 2011 Equity Incentive Plan in February 2011. A total of 55,423 shares remaining available for grant under the 2009 Equity Incentive Plan were transferred to the 2011 Equity Incentive Plan and the 2009 Equity Incentive Plan was terminated for any new grants.

(3)

The 2011 Equity Incentive Plan provides that the number of shares available for issuance under the plan will include an annual increase on the first day of each fiscal year beginning in 2012, equal to the

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least of: (a) 1,000,000 shares; (b) 4.0% of the outstanding shares of common stock as of the last day of our immediately preceding fiscal year; or (c) such other amount as our board of directors may determine. Pursuant to the provision, an additional 1,000,000 shares became available for issuance under the 2011 Equity Incentive Plan, effective January 1, 2018. This increase is not reflected in the table above.

(4)

The 2017 Employee Stock Purchase Plan was approved by shareholders in July 2017. A total of 1,000,000 shares were reserved for issuance, of which 949,739 shares remain available for sale as of December 31, 2017.

(5)

As of December 31, 2017, individual awards of options to purchase a total of 40,184 shares were outstanding pursuant to awards assumed in connection with our acquisition of DVS Sciences, Inc. and granted under DVS's 2010 Equity Incentive Plan at a weighted-average exercise price of \$1.01.

(6)

The Fluidigm 2017 Inducement Plan was approved by the board in January 2017. As of December 31, 2017, a total of 1,988,000 shares of Fluidigm common stock remained available for issuance under the 2017 Inducement Plan and equity awards covering an aggregate of 12,000 shares were outstanding.

Material Features of the 2017 Inducement Award Plan

The 2017 Inducement Award Plan, or 2017 Inducement Plan, was established by the board in January 2017 with the purpose of attracting, retaining and incentivizing employees in furtherance of Fluidigm's success. In accordance with NASDAQ rules, this plan is used to offer equity awards as material inducements for new employees to join Fluidigm. As of January 5, 2017, 2,000,000 shares of common stock were reserved solely for the granting of inducement stock options, restricted stock, restricted stock units and other awards. The 2017 Inducement Plan provides for the granting of stock options with exercise prices equal to the fair market value of our common stock on the date of grant. As of December 31, 2017, a total of 1,988,000 shares of Fluidigm common stock remained available for issuance under the 2017 Inducement Plan.

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RELATED PERSON TRANSACTIONS AND SECTION 16(A)

BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Related Person Transactions

OpGen Supply Agreement

In December 2013, OpGen, Inc., or OpGen, purchased a Biomark HD system and related consumables from us. Evan Jones, a former member of our board of directors, is the President and Chief Executive Officer of OpGen, a member of OpGen's board of directors, and a substantial stockholder in OpGen. Evan Jones resigned as a member of our board of directors effective as of August 1, 2017. OpGen's purchase price for the Biomark HD system was approximately \$221,000. In March 2014, we entered into a supply agreement with OpGen with respect to OpGen's purchases of consumables for use with the system. OpGen's aggregate purchases under the supply agreement during the year ended December 31, 2017 totaled approximately \$107,000. During the first quarter of 2018, OpGen did not make any purchases from us. We believe that our transactions with OpGen were on commercially reasonable terms no less favorable to us than could have been obtained from unaffiliated third parties. The terms of these transactions have been previously approved and ratified by our audit committee without the participation of Mr. Jones.

In addition, through its affiliated funds, Versant Ventures, a venture capital firm for which the chairman of our board of directors, Samuel D. Colella, serves as a managing member, is a significant stockholder in OpGen. Mr. Colella does not serve on the board of directors of OpGen and is not involved in its operations. We do not believe that our transactions with OpGen constitute "related person transactions" within the meaning of Item 404 of Regulation S-K as they pertain to Mr. Colella, but as part of our governance policy, Versant's relationship with OpGen was disclosed to our audit committee in connection with its consideration of the transactions described above.

Policy Concerning Audit Committee Approval of Related Person Transactions

Our board of directors and audit committee have adopted a formal written policy that our executive officers, directors, holders of more than 5% of any class of our voting securities, and any member of the immediate family of any of the foregoing persons, are not permitted to enter into any transaction with us for which disclosure would be required under Item 404 of Regulation S-K, referred to as a related person transaction, without the review and approval or ratification of our audit committee, or other independent members of our board of directors if it is inappropriate for our audit committee to review such transaction due to a conflict of interest. Any related person transaction must be presented to our audit committee for review, consideration and approval or ratification. In approving or rejecting any such related person transaction, our audit committee is to consider the relevant facts and circumstances available and deemed relevant to the audit committee, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person's interest in the transaction.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires our directors, executive officers, and holders of more than 10% of our common stock to file with the SEC reports regarding their ownership and changes in ownership of our securities. We believe that our directors, executive officers, and 10% stockholders complied with all Section 16(a) filing requirements in 2017, except that Mai Chan (Grace) Yow, Steven McPhail, and Vikram Jog each filed a late amendment to a timely filed Form 4 reporting option grants. In making these statements, we have relied upon examination of the filings made with the SEC and the written representations of our directors and executive officers.

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SECURITY OWNERSHIP

Except as indicated by the footnotes below, the following table sets forth information as of April 5, 2018 concerning:

- Each person who we know beneficially owns more than five percent of our common stock;
- Each of our directors and nominees for the board of directors;
- Each of our named executive officers; and
- All of our directors and executive officers as a group.

Unless otherwise noted below, the address of each person listed on the table is c/o Fluidigm Corporation, 7000 Shoreline Court, Suite 100, South San Francisco, California 94080.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 38,912,978 shares of common stock outstanding at April 5, 2018. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to options held by that person that are currently exercisable, options held by that person that are exercisable within 60 days of April 5, 2018, and restricted stock units that are scheduled to vest within 60 days of April 5, 2018. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

The information provided in the table is based on our records, information filed with the SEC, and information provided to Fluidigm, except where otherwise noted.

Name of Beneficial Owner	Shares Beneficially Owned	Percent of Shares Beneficially Owned
5% Stockholders:		
Entities affiliated with Levin Capital Strategies, L.P.(1)	12,494,686	32.1%
Entities affiliated with PRIMECAP Management Company(2)	5,775,143	14.8%
Entities affiliated with Neuberger Berman Group LLC(3)	4,734,734	12.2%
Entities affiliated with BlackRock, Inc.(4)	2,184,882	5.6%
Directors and Named Executive Officers:		
Stephen Christopher Linthwaite(5)	256,709	*
Nicolas M. Barthelemy(6)	31,123	*
Gerhard F. Burbach(7)	91,333	*
Samuel D. Colella(8)	156,248	*
Patrick S. Jones(9)	102,666	*
Carlos V. Paya(10)	21,686	*
Vikram Jog(11)	103,721	*
Nicholas S. Khadder(12)	22,668	*

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Steven C. McPhail(13)	44,537	*
Mai Chan (Grace) Yow(14)	33,548	*
All current directors, current executive officers, and named executive officers as a group (10 persons)(15)	864,239	2.2%

*

Less than one percent.

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(1)

Based solely on the Form 4 filed with the SEC on April 4, 2018. Levin Capital Strategies, L.P., or LCS, filing jointly with LCS GP, LLC, Bi-Directional Disequilibrium Master Fund, Ltd. (“BDD”) (formerly known as Levin Capital Trilogy Master Fund, Ltd.), LCS, LLC, Levcap Alternative Fund, L.P. (“Levcap”), LCS Event Partners LLC, Safinia Partners, L.P. (“Safinia”), LCS L/S, LLC and John A. Levin (collectively, the “LCS Filing Group”), report that the shares are beneficially owned as follows: 11,048,556 shares are owned by Managed Accounts of LCS; 89,363 are owned by BDD; 1,275,129 shares are owned by Transamerica Large Cap Value Fund; 56,820 shares are owned by Levcap; 19,818 shares are owned by Safinia; and 5,000 shares are owned by spouse of John A. Levin. The address of LCS is 595 Madison Avenue, 17th Floor, New York, NY 10022.

(2)

Based solely on the most recently available Schedule 13G/A filed with the SEC on February 27, 2018. PRIMECAP Management Company, or PRIMECAP, reported sole voting power with respect to 3,850,032 shares, sole dispositive power with respect to 5,775,143 shares, and no shared voting or dispositive power. PRIMECAP is an investment advisor in accordance with Rule 13d 1(b). The address of PRIMECAP is 177 E. Colorado Blvd., 11th Floor, Pasadena, CA 91105.

(3)

Based solely on the most recently available Schedule 13G/A filed with the SEC on February 15, 2018. Neuberger Berman Group LLC, filing jointly with Neuberger Berman Investment Advisers LLC, reported shared voting power with respect to 3,854,423 shares, shared dispositive power with respect to 4,734,734 shares, and no sole voting or dispositive power. The address of Neuberger Berman Group LLC is 1290 Avenue of the Americas, New York, NY 10104.

(4)

Based solely on the most recently available Schedule 13G filed with the SEC on February 1, 2018. BlackRock, Inc., or BlackRock, and its affiliates, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management, LLC, reported sole voting power with respect to 2,139,653 shares, sole dispositive power with respect to 2,184,882 shares, and no shared voting or dispositive power. The address of BlackRock is 55 East 52nd Street, New York, NY 10055.

(5)

Consists of 117,764 shares held by Stephen Christopher Linthwaite, options to purchase 134,195 shares of common stock that are exercisable within 60 days of April 5, 2018, and 4,750 restricted stock units scheduled to vest within 60 days of April 5, 2018.

(6)

Consists of 20,707 shares held by the Barthelemy 2001 Trust, of which Mr. Barthelemy is a trustee, and options to purchase 10,416 shares of common stock that are exercisable within 60 days of April 5, 2018.

(7)

Consists of 17,667 shares held by Gerhard F. Burbach, of which 12,667 are vested restricted stock units for which Mr. Burbach has deferred settlement as described in “Compensation of Directors – RSUs in lieu of Cash and RSU Deferral”, and options to purchase 73,666 shares of common stock that are exercisable within 60 days of April 5, 2018.

(8)

Consists of 62,300 shares held by Samuel D. Colella, 5,561 shares held by The Colella Family Partners, L.P., of which Mr. Colella is a general partner, 53,395 shares held by the Colella Family Exempt Marital Deduction Trust dated September 21, 1992 of which Mr. Colella is a trustee, 3,326 shares held by the Colella Family Non-Exempt Marital

Deduction Trust dated September 21, 1992 of which Mr. Colella is a trustee, and options to purchase 31,666 shares of common stock that are exercisable within 60 days of April 5, 2018.

(9)

Consists of 5,000 shares held by Patrick S. Jones, and options to purchase 97,666 shares of common stock that are exercisable within 60 days of April 5, 2018.

(10)

Consists of 11,270 shares held by Carlos V. Paya, and options to purchase 10,416 shares of common stock that are exercisable within 60 days of April 5, 2018.

(11)

Consists of 13,235 shares held by Vikram Jog, 52,061 shares held by the Vikram and Pratima Jog Family Trust U/A dated June 23, 2009, of which Mr. Jog is a trustee, options to purchase 35,625 shares of common stock that are exercisable within 60 days of April 5, 2018, and 2,800 restricted stock units scheduled to vest within 60 days of April 5, 2018.

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(12)

Consists of 8,328 shares held by Nicholas Khadder, options to purchase 11,690 shares of common stock that are exercisable within 60 days of April 5, 2018, and 2,650 restricted stock units scheduled to vest within 60 days of April 5, 2018.

(13)

Consists of 32,603 shares held by Steven C. McPhail, options to purchase 9,538 shares of common stock that are exercisable within 60 days of April 5, 2018, and 2,396 restricted stock units scheduled to vest within 60 days of April 5, 2018.

(14)

Consists of 19,075 shares held by Mai Chan (Grace) Yow, options to purchase 12,431 shares of common stock that are exercisable within 60 days of April 5, 2018, and 2,042 restricted stock units scheduled to vest within 60 days of April 5, 2018.

(15)

Consists of 422,292 shares beneficially owned by current directors, current executive officers, and named executive officers, options held by current directors and executive officers to purchase 427,309 shares of common stock that are exercisable within 60 days of April 5, 2018, 14,638 restricted stock units scheduled to vest within 60 days of April 5, 2018, and includes 12,667 vested restricted stock units for which a director has deferred settlement.

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INCORPORATION BY REFERENCE

The SEC allows us to “incorporate by reference” information into this Proxy Statement, which means that we can disclose important information to you by referring you to other documents that we have filed separately with the SEC. The information incorporated by reference is deemed to be part of this Proxy Statement. Our financial statements and other information required by Item 13(a) are incorporated by reference from our annual report on Form 10-K filed with the SEC on March 8, 2018.

OTHER MATTERS

We know of no other matters to be submitted at the 2018 annual meeting. If any other matters properly come before the 2018 annual meeting, it is the intention of the persons named in the proxy to vote the shares they represent as the board of directors may recommend. Discretionary authority with respect to such other matters is granted by a properly submitted proxy.

It is important that your shares be represented at the 2018 annual meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote as promptly as possible to ensure your vote is recorded.

THE BOARD OF DIRECTORS

South San Francisco, California

April 27, 2018

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PLEASE DETACH ALONG PERFORATED LINE AND MAIL IN THE ENVELOPE PROVIDED. FLUIDIGM CORPORATION Annual Meeting of Stockholders May 31, 2018 at 9:00 AM (Pacific Time) This proxy is solicited by the Board of Directors. The undersigned stockholder hereby appoints Stephen Christopher Linthwaite and Vikram Jog, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of common stock of FLUIDIGM CORPORATION that the stockholder is entitled to vote at the Annual Meeting of Stockholders to be held at 9:00 AM (Pacific Time) on May 31, 2018, at the offices of Fluidigm Corporation located at 7000 Shoreline Ct., Suite 100, South San Francisco, California 94080, and any adjournments or postponements thereof. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN. IF NO SUCH DIRECTION IS MADE, THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE BOARD OF DIRECTORS' RECOMMENDATIONS. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF. Continued and to be signed on the reverse side. Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice, Proxy Statement, and 2017 Annual Report are available at: <http://www.viewproxy.com/Fluidigm/2018>

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FOR ALL WITHHOLD ALL FOR ALL EXCEPT 1. Election of Directors NOMINEES: 01 Gerhard F. Burbach 02 Carlos Paya INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark "FOR ALL EXCEPT" and write the number of the nominee on the line below. PLEASE DETACH ALONG PERFORATED LINE AND MAIL IN THE ENVELOPE PROVIDED. I plan on attending the meeting. Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer. Date:

(if held jointly) The Board of Directors recommends that you vote FOR Proposal 2: 2. To approve our executive compensation program for the year ended December 31, 2017, on an advisory (nonbinding) basis. The Board of Directors recommends that you vote FOR Proposal 3: 3. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2018. NOTE: This proxy, when properly executed, will be voted in the manner directed herein. If no direction is made, this proxy will be voted FOR the election of both nominees for Class II directors, FOR the approval of our executive compensation program for the year ended December 31, 2017, and FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2018. The proxy holders may vote in their discretion with regard to any other matter properly brought before the meeting and at any adjournment or postponement thereof. PROXY SUBMISSION INSTRUCTIONS Please have your 11 digit control number ready when submitting your proxy by Internet or Telephone. Vote by Internet, Telephone or Mail 24 Hours a Day, 7 Days a Week. Your phone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card. Votes submitted electronically over the Internet or by telephone must be received by 11:59 PM (Pacific Time) on May 30, 2018. INTERNET Submit Your Proxy on the Internet: Go to www.AALvote.com/FLDM Have your proxy card available when you access the above website. Follow the prompts to submit your proxy. TELEPHONE Submit Your Proxy by Phone: Call 1 (866) 804-9616 Use any touch-tone telephone to submit your proxy. Have your proxy card available when you call. Follow the instructions to submit your proxy. MAIL Submit Your Proxy by Mail: Mark, sign, and date your proxy card, then detach it, and return it in the postage-paid envelope provided. CONTROL NUMBER CONTROL NUMBER TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS x The Board of Directors recommends that you vote FOR the following nominees for Class II directors: FOR AGAINST ABSTAIN o o o FOR AGAINST ABSTAIN o o o