

Edgar Filing: MACC PRIVATE EQUITIES INC - Form 10-Q

MACC PRIVATE EQUITIES INC  
Form 10-Q  
May 15, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-24412

MACC Private Equities Inc.  
-----

(Exact name of registrant as specified in its charter)

Delaware  
-----

42-1421406  
-----

(State or other jurisdiction of incorporation  
or organization)

(I.R.S. Employer  
Identification No.)

580 2nd Street, Suite 102, Encinitas, CA 92024  
-----

(Address of principal executive offices)  
(Zip Code)

(760) 479-5075  
-----

(Registrant's telephone number, including area code)

101 Second Street SE, Suite 800, Cedar Rapids, Iowa 52401  
-----

(Registrant's former address)

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 X No

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

Large accelerated filer | | Accelerated filer | | Non-accelerated filer | |

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Smaller Reporting Company | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

At March 31, 2008, the registrant had issued and outstanding 2,464,621 shares of common stock.

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**PART I -- FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
Condensed Consolidated Balance Sheets**

March 31,  
2008  
(Unaudited)  
-----

**Assets**

Cash and cash equivalents	\$	308,257
Loans and investments in portfolio securities, at market or fair value:		
Unaffiliated companies (cost of \$2,288,257 and \$2,301,385)		1,678,111
Affiliated companies (cost of \$12,958,929 and \$13,007,879)		11,492,348
Controlled companies (cost of \$3,010,356 and \$3,040,043)		2,521,400
Interest receivable		298,927
Other assets		236,545
		-----
Total assets	\$	16,535,588
		=====

**Liabilities and net assets**

Liabilities:		
Note payable	\$	6,018,064
Incentive fees payable		27,617
Accounts payable and other liabilities		197,349
		-----
Total liabilities		6,243,030
		-----

**Net assets:**

Common stock, \$.01 par value per share; authorized 10,000,000 shares; issued and outstanding 2,464,621 shares		24,646
Additional paid-in-capital		12,833,595
Unrealized depreciation on investments		(2,565,683)
		-----
Total net assets		10,292,558
		-----

Total liabilities and net assets	\$	16,535,588
		=====

Net assets per share	\$	4.18
		=====

See accompanying notes to unaudited condensed consolidated financial statements.

**MACC PRIVATE EQUITIES INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

	For the three months ended March 31, 2008	For the three months ended March 31, 2007	For the three months ended March 31, 2007
	-----	-----	-----
Investment income:			
Interest			
Unaffiliated companies	\$ 8,397	13,657	16,
Affiliated companies	162,843	132,081	305,
Controlled companies	9,479	29,361	30,
Other	538	26,682	2,
Dividends			
Affiliated companies	13,035	11,138	98,
Other income	6	---	
	-----	-----	-----
Total investment income	194,298	212,919	454,
	-----	-----	-----
Operating expenses:			
Interest expenses	108,812	206,222	236,
Management fees	63,129	87,266	130,
Professional fees	198,976	75,038	254,
Other	94,865	113,107	151,
	-----	-----	-----
Total operating expenses	465,782	481,633	773,
	-----	-----	-----
Investment expense, net	(271,484)	(268,714)	(319,0
	-----	-----	-----
Realized and unrealized (loss) gain on investments and other assets:			
Net realized gain (loss) on investments:			
Unaffiliated companies	5,493	(95,980)	5,
Net change in unrealized appreciation/depreciation on investments	(199,976)	55,333	(921,3
Net change in unrealized gain on other assets	6,628	25,686	6,
	-----	-----	-----
Net (loss) gain on investments	(187,855)	(14,961)	(909,2
	-----	-----	-----
Net change in net assets from operations	\$ (459,339)	(283,675)	(1,228,2
	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

**MACC PRIVATE EQUITIES INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	For the six months ended March 31, 2008 -----
Cash flows (used in) from operating activities:	
Net change in net assets from operations	\$ (1,228,252)
Adjustments to reconcile net change in net assets from operations to net cash provided by operating activities:	
Net realized and unrealized loss (gain) on investments	915,837
Net realized and unrealized gain on other assets	15,671
Proceeds from disposition of and payments on loans and investments in portfolio securities	97,258
Purchases of loans and investments in portfolio securities	---
Change in interest receivable	(30,329)
Change in other assets	(39,276)
Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities	(154,638)
Net cash (used in) provided by operating activities	----- (423,729)
Cash flows from financing activities:	
Note repayment	(90,309)
Debt repayment	---
Net cash used in financing activities	----- (90,309)
Net decrease in cash and cash equivalents	(514,038)
Cash and cash equivalents at beginning of period	822,295
Cash and cash equivalents at end of period	\$ 308,257 =====
Supplemental disclosure of cash flow information -	
Cash paid during the period for interest	\$ 228,793 =====

See accompanying notes to unaudited condensed consolidated financial statements.

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### (1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of MACC Private Equities Inc. ("MACC") and its wholly owned subsidiary MorAmerica Capital Corporation ("MorAmerica Capital") which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for investment companies. All material intercompany accounts and transactions have been eliminated in consolidation. Effective April 30, 2008, MorAmerica Capital was merged with and into MACC (the "Merger").

The financial statements included herein have been prepared in accordance with GAAP for interim financial information and instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto of MACC Private Equities Inc. and Subsidiary as of and for the year ended September 30, 2007. The information reflects all adjustments consisting of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods. The results of the interim period reported are not necessarily indicative of results to be expected for the year. The balance sheet information as of September 30, 2007 has been derived from the audited balance sheet as of that date.

### (2) Critical Accounting Policy

Investments in securities that are traded in the over-the-counter market or on a stock exchange are valued by taking the average of the close (or bid price in the case of over-the-counter equity securities) for the valuation date and the preceding two days. Restricted and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors. Among the factors considered in determining the fair value of investments are the cost of the investment; developments, including recent financing transactions, since the acquisition of the investment; financial condition and operating results of the investee; the long-term potential of the business of the investee; market interest rates for similar debt securities; overall market conditions and other factors generally pertinent to the valuation of investments. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

In the valuation process, MACC uses financial information received monthly, quarterly, and annually from its portfolio companies which includes both audited and unaudited financial statements. This information is used to determine financial condition, performance, and valuation of the portfolio investments.

Realization of the carrying value of investments is subject to future developments. Investment transactions are recorded on the trade date and identified cost is used to determine realized gains and losses. Under the provisions of SOP 90-7, the fair value of loans and

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investments in portfolio securities on February 15, 1995, the fresh-start date, is considered the cost basis for financial statement purposes.

### (3) Financial Highlights (Unaudited)

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	For the six months ended March 31, 2008	For the six months ended March 31, 2007
	-----	-----
Per Share Operating Performance (For a share of capital stock outstanding throughout the period):		
Net asset value, beginning of period	\$ 4.67	4.7
	-----	-----
Income from investment operations:		
Investment expense, net	(0.13)	(0.17)
Net realized and unrealized gain (loss) on investment transactions	(0.36)	0.1
	-----	-----
Total from investment operations	(0.49)	0.0
	-----	-----
Net asset value, end of period	\$ 4.18	4.7
	=====	=====
Closing bid price	\$ 2.20	2.0
	=====	=====
	For the six months ended March 31, 2008	For the six months ended March 31, 2007
	-----	-----
Total return		
Net asset value basis	(10.66) %	(0.04)
Market price basis	(10.20) %	16.8
Net asset value, end of period (in thousands)	\$ 10,293	11,61
Ratio to weighted average net assets:		
Investment expense, net	2.90 %	3.5
Operating and income tax expense	7.03 %	7.6

The ratios of investment expense, net to average net assets, of operating and income tax expenses to average net assets and total return are calculated for common stockholders as a class. Total return, which reflects the annual change in net assets, was calculated using the weighted average change in net assets between the beginning of the current fiscal year and end of the current year period. An individual common stockholders' return may vary from these returns.

(4) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are

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effective as of the beginning of the first fiscal year that begins after November 15, 2007. MACC is evaluating the effect, if any, the adoption of SFAS 157 will have on its consolidated financial statements.

In February 2007 the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items to be measured at fair value. The provisions of SFAS No. 159 are effective as of the beginning of the first fiscal year that begins after November 15, 2007. MACC is evaluating the effect, if any, the adoption of SFAS 159 will have on its consolidated financial statements.

In June 2007, the AICPA issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide *Investment Companies* and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies." SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide *Investment Companies*. Statement of Position 07-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2007.

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)  
 MARCH 31, 2008

**Manufacturing:**

Company	Security	Perc of Ne asse
Aviation Manufacturing Group, LLC (a) Yankton, South Dakota Manufacturer of flight critical parts for aircraft	14% debt security, due October 1, 2008 154,000 units preferred Membership interest 14% note, due October 1, 2008	
Central Fiber Corporation Wellsville, Kansas Recycles and manufactures cellulose fiber products	12% debt security, due March 31, 2009 12% debt security, due March 31, 2009 Warrant to purchase 273.28 common shares	
Detroit Tool Metal Products Co. (a) Lebanon, Missouri Metal stamping	12% debt security, due November 18, 2009 19,853.94 share Series A preferred (c) 7,887.17 common shares (c)	
Handy Industries, LLC (a) Marshalltown, Iowa Manufacturer of lifts for	12.5% debt security, due January 8, 2008 167,171 units Class B preferred (c) Membership interest	



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motorcycles, trucks and  
industrial metal products

<p>Hicklin Engineering, L.C. (a) Des Moines, Iowa Manufacturer of auto and truck transmission and brake dynamometers</p>	<p>10% debt security, due June 30, 2008 Membership interest</p>
<p>Kwik-Way Products, Inc. (a) Marion, Iowa Manufacturer of automobile aftermarket engine and brake repair machinery</p>	<p>2% debt security, due January 31, 2008 (c) 2% debt security, due January 31, 2008 (c) 38,008 common shares (c) 29,340 common shares (c)</p>
<p>Linton Truss Corporation Delray Beach, Florida Manufacturer of residential roof and floor truss systems</p>	<p>542.8 common shares (c) 400 shares Series 1 preferred (c) Warrants to purchase common shares (c)</p>
<p>M.A. Gedney Company (a) Chaska, Minnesota Pickle Processor</p>	<p>648,783 shares preferred (c) 12% debt security, due June 30, 2009 Warrant to purchase 83,573 preferred shares (c)</p>
<p>Magnum Systems, Inc. (a) Parsons, Kansas Manufacturer of industrial bagging equipment</p>	<p>12% debt security, due November 1, 2008 48,038 common shares (c) 292,800 shares preferred (c) Warrant to purchase 56,529 common shares (c)</p>

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED (UNAUDITED)...  
MARCH 31, 2008

**Manufacturing Continued:**

Company	Security	Perce of Ne asset
<p>Pratt-Read Corporation (a) Bridgeport, Connecticut Manufacturer of screwdriver shafts</p>	<p>13,889 shares Series A Preferred (c) 7,718 shares Services A preferred (c) 13% debt security, due July 26, 2007 (c)</p>	

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<p>and handles and other hand tools</p>	<p>Warrants to purchase common shares (c)</p>
<p>Spectrum Products, LLC (b)            Missoula, Montana            Manufacturer of equipment for the swimming pool industry</p>	
<p>13% debt security, due January 1, 2008 (c)            385,000 units Series A preferred (c)            Membership interest (c)            17,536.75 units Class B preferred (c)</p>	
<p>Superior Holding, Inc. (a)            Wichita, Kansas            Manufacturer of industrial and commercial boilers and shower doors, frames and enclosures</p>	
<p>6% debt security, due April 1, 2010            Warrant to purchase 11,143 common shares (c)            6% debt security, due April 1, 2010            121,457 common shares (c)            6% debt security, due April 1, 2010            312,000 common shares (c)</p>	
<p style="text-align: center;">Total manufacturing</p>	
<p>100 =====</p>	
<p><b>Service:</b></p>	
<p>Monitronics International, Inc.            Dallas, Texas            Provides home security systems monitoring services</p>	
<p>73,214 common shares (c)</p>	
<p>Morgan Ohare, Inc. (b)            Addison, Illinois            Fastener plating and heat treating</p>	
<p>0% debt security, due January 1, 2009 (c)            10% debt security, due January 1, 2009            57 common shares (c)</p>	
<p>SMWC Acquisition Co., Inc. (a)            Kansas City, Missouri            Steel warehouse distribution and processing</p>	
<p>13% debt security due September 30, 2011            12% debt security due September 30, 2011            Warrant to purchase 2,200 common shares (c)</p>	
<p>Warren Family Funeral Homes, Inc.            Topeka, Kansas            Provider of value priced funeral services</p>	
<p>Warrant to purchase 346.5 common shares (c)</p>	
<p style="text-align: center;">Total Service</p>	
<p>25. =====</p>	

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED (UNAUDITED)...  
 MARCH 31, 2008

**Service Continued:**

**Company**

**Security**

Perce  
 of  
 asse

**Technology and Communications:**

Feed Management Systems, Inc. (a) Brooklyn Center, Minnesota Batch feed software and systems and BEB internet services	540,551 common shares (c) 674,309 shares Series A preferred (c) Warrants to purchase 166,500 Series A preferred (c)
MainStream Data, Inc. (a) Salt Lake City, Utah Content delivery solutions provider	322,763 shares Series A preferred (c)
Phonex Broadband Corporation Midvale, Utah Power line communications	1,855,302 shares Series A preferred (c)
Portrait Displays, Inc. Pleasanton, California Designs and markets pivot enabling software for LCD computer monitors	8% debt security, due April 1, 2009 8% debt security, due April 1, 2012 (c) Warrant to purchase 39,400 common shares (c)

Total technology and communications

25.  
 =====

- (a) Affiliated company.
- (b) Controlled company.
- (c) Non-income producing.
- (d) For all debt securities presented, the cost is equal to the principal balance.

See accompanying notes to unaudited condensed consolidated financial statements.

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*This section contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Act"). Such statements are made in good faith by MACC pursuant to the safe-harbor provisions of the 1995 Act, and are identified as including terms such as "may," "will," "should," "expects," "anticipates," "estimates," "plans," or similar language. In connection with these safe-harbor provisions, MACC has identified in its Annual Report to Shareholders for the fiscal year ended September 30, 2007, important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of MACC, including, without limitation, the high risk nature of MACC's portfolio investments, the effects of general economic conditions on MACC's portfolio companies and MorAmerica Capital's ability to obtain future funding, changes in prevailing market interest rates, and contractions in the markets for corporate acquisitions and initial public offerings. MACC further cautions that such factors are not exhaustive or exclusive. MACC does not undertake to update any forward-looking statement which may be made from time to time by or on behalf of MACC.*

### Results of Operations

MACC's investment income includes income from interest, dividends and fees. Investment expense, net represents total investment income minus net operating expenses. The main objective of portfolio company investments is to achieve capital appreciation and realized gains in the portfolio. These gains and losses are not included in investment expense, net.

#### Second Quarter Ended March 31, 2008 Compared to Second Quarter Ended March 31, 2007

	For the three months ended March 31,	
	2008	2007
Total investment income	\$ 194,298	212,9
Net operating and income tax expense	(465,782)	(481,63
	(271,484)	(268,71
Investment expense, net		
Net realized gain (loss) on investments	5,493	(95,98
Net change in unrealized appreciation/ depreciation on investments and other assets	(199,976)	55,3
Net change in unrealized gain on other assets	6,628	25,6
	(187,855)	(14,96
Net loss on investments		
Net change in net assets from operations	\$ (459,339)	(283,67
Net asset value per share:		
Beginning of period	\$ 4.36	4.
End of period	\$ 4.18	4.

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### Total Investment Income

During the current fiscal year second quarter, total investment income was \$194,298, a decrease of \$18,621, or 9%, from total investment income of \$212,919 for the prior year second quarter. In the current year second quarter as compared to the prior year second quarter, interest income decreased \$20,524, or 10%, and dividend income increased \$1,897, or more than 17%. The decrease in interest income is the net result of (i) repayments of principal on debt portfolio securities issued to us by four portfolio companies, (ii) an increase in interest income due to an additional debt investment from the restructure in one debt portfolio security, (iii) an increase in interest income on one debt portfolio security which had been on non-accrual of interest status during the prior year second quarter but which is currently making interest payments, and (iv) a decrease in interest income on one debt portfolio security which has been placed on non-accrual of interest status. In the current year second quarter, MACC received a dividend on one existing portfolio investment, as compared to dividend income received in the prior year second quarter from two existing portfolio investments, however the current year dividend was larger. MACC does not anticipate that its dividend income will continue to increase in future periods.

### Net Operating Expenses

Net operating expenses for the second quarter of the current year were \$465,782, a decrease of 15,851, or 3%, as compared to net operating expenses for the prior year second quarter of \$481,633. Interest expense decreased \$97,410, or 47%, in the current year second quarter due to the repayment in the prior fiscal year of \$10,790,000 of borrowings (the "SBA Debentures") from the Small Business Administration ("SBA"). Management fees decreased \$24,137, or 28%, in the current year second quarter due to the decrease in capital under management. Professional fees increased \$123,938, or 165%, in the current year second quarter as compared to the prior year second quarter due to expenses related to changes in the investment advisory structure, the Merger and the exploration of capital raising options. Other expenses decreased \$18,242, or 16%, in the current year second quarter as compared to the prior year second quarter. The decrease in other expenses is primarily the net result of a decrease in prepayment penalties incurred on the repayment of the borrowings from the SBA during the prior year second quarter, a decrease in administrative expenses due to the timing of payments, and an increase in expenses associated with compliance with the Security and Exchange Commission regulations.

### Investment Expense, Net

For the current year second quarter, MACC recorded investment expense, net of \$271,484, as compared to investment expense, net of \$268,714 during the prior year second quarter, an increase of \$2,770, or 1%. The increase in investment expense, net is the result of the decrease in investment income described above and the decrease in operating expenses described above.

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### Net Realized Gain on Investments

During the current year second quarter, MACC recorded net realized gain on

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investments of \$5,493, as compared with net realized loss on investments of \$95,980 during the prior year second quarter. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. Under the Investment Advisory Agreements (the "InvestAmerica Advisory Agreements") between MACC and its investment adviser, InvestAmerica Investment Advisors, Inc. ("InvestAmerica"), and between MorAmerica and InvestAmerica, both of which were in effect through and after the second quarter of fiscal 2008, InvestAmerica earned an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to InvestAmerica under the InvestAmerica Advisory Agreements.

As reported elsewhere, effective April 29, 2008, the InvestAmerica Advisory Agreements were terminated and MACC entered into an Investment Advisory Agreement (the "EAM Advisory Agreement") with Eudaimonia Asset Management, LLC ("EAM"), and MACC, EAM and InvestAmerica entered into an Investment Subadvisory Agreement (the "Subadvisory Agreement"). Under the EAM Advisory Agreement, EAM will earn an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. Under the terms of the Subadvisory Agreement, a portion of such incentive fee will be payable to InvestAmerica with respect to the portion of MACC's portfolio managed by InvestAmerica.

### Net Change in Unrealized Appreciation/Depreciation of Investments and Other Assets

Net change in unrealized appreciation/depreciation on investments represents the change for the period in the unrealized appreciation, net of unrealized depreciation, on MACC's total investment portfolio based on the valuation method described under "Critical Accounting Policy".

MACC recorded net change in unrealized appreciation/depreciation on investments of (\$199,976) during the current year second quarter, as compared to \$55,333 during the prior year second quarter. This net change resulted from:

- \* Unrealized appreciation in the fair value of two portfolio companies totaling \$567,469 during the current year second quarter, as compared to unrealized appreciation in the fair value of two portfolio companies totaling \$655,333 during the prior year second quarter.

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- \* Unrealized depreciation in the fair value of six portfolio companies totaling \$767,445 during the current year second quarter, as compared to unrealized depreciation in the fair value of four portfolio companies of \$600,000 during the prior year second quarter.

### Net Change in Net Assets from Operations

MACC experienced a decrease of \$459,339 in net assets for the second quarter of fiscal year 2008, and the resulting net asset value per share was \$4.18 as of March 31, 2008, as compared to \$4.67 as of September 30, 2007.

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The decrease in net assets recorded during the current year second quarter was the result of the investment expense, net and the net change in unrealized appreciation/depreciation on investments, as described above.

MACC has seven portfolio investments valued at cost, has recorded unrealized appreciation on five portfolio investments, and has recorded unrealized depreciation on eight portfolio investments. Quarterly valuations can be affected by a portfolio company's short term performance that results in increases or decreases in unrealized depreciation and unrealized appreciation for the quarter. Changes in the fair value of a portfolio security may or may not be indicative of the long term performance of the portfolio company.

Although MACC is not currently making investments in new portfolio companies (but may periodically make follow-on investments), as previously announced, both the Board of Directors and the shareholders have approved (i) EAM to serve as investment adviser to MACC under the EAM Advisory Agreement, and (ii) InvestAmerica to serve as subadviser to MACC under the Subadvisory Agreement. Under the EAM Advisory Agreement, the investment strategy of MACC going forward will be to make new equity investments in small and micro cap companies which qualify for investment by business development companies under the 1940 Act. Under the Subadvisory Agreement, InvestAmerica will continue to oversee MACC's existing portfolio of investments (the "Existing Portfolio"). MACC will continue to prudently sell Existing Portfolio investments and use the resulting proceeds to pay down the note payable, as further described below. The ability to exit the Existing Portfolio investments is affected by company performance and external factors unrelated to the portfolio companies. These factors include sub prime lending, credit contraction, inflationary pressures, high commodity prices, recessionary pressures, a slowing economy and current world tensions.

### Six Months Ended March 31, 2008 Compared to Six Months Ended March 31, 2007

	For the six months ended March 31,	
	2008	2007
Total investment income	\$ 454,302	467,2
Net operating and income tax expense	(773,345)	(881,01
	(319,043)	(413,74
Investment expense, net		
Net realized (loss) gain on investments	5,493	(95,98
Net change in unrealized appreciation/ depreciation on investments and other assets	(921,330)	479,3
Net change in unrealized loss on other assets	6,628	25,6
	(909,209)	409,0
Net gain (loss) on investments		

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Net change in net assets from operations	\$ (1,228,252)	(4,68)
=====		
Net asset value per share:		
Beginning of period	\$ 4.67	4.
=====		
End of period	\$ 4.18	4.
=====		

### Total Investment Income

During the current fiscal year six-month period, total investment income was \$454,302, a decrease of \$12,968, or 3%, from total investment income of \$467,270 for the prior year six-month period. In the current year six-month period as compared to the prior year six-month period, interest income decreased \$64,824, or 15%, and dividend income increased \$51,850 or 112%. The decrease in interest income is the net result of (i) repayments of principal on debt portfolio securities issued to us by six portfolio companies, (ii) an increase in interest income due to an additional debt investment from the restructure of one debt portfolio security, (iii) an increase in interest income on one debt portfolio security which had been on non-accrual of interest status during the prior year six-month period but which is currently making interest payments, and (iv) a decrease in interest income on one debt portfolio security which has been placed on non-accrual of interest status. In both the current year six-month period and the prior year six-month period, MACC received dividends on two existing portfolio investments, however the current year dividends were larger.

### Net Operating Expenses

Net operating expenses for the six-month period of the current year were \$773,345, a decrease of \$107,669, or 12%, as compared to net operating expenses for the prior year six-month period of \$881,014. Interest expense decreased \$164,905, or 41%, in the current year six-month period due to the repayment in the prior fiscal year of the SBA Debentures. Management fees decreased \$42,867, or 25%, in the current year six-month period due to the decrease in capital under management. Professional fees increased \$116,444, or 84%, in the current year six-month period due to expense related to changes in the investment advisory structure, the Merger and the exploration of capital raising options. Other expenses decreased \$16,341, or

10%, in the current year six-month period as compared to the prior year six-month period. The decrease in other expenses is the net result of (i) an increase in prepayment penalties incurred on the repayment of the borrowings from the SBA during the current year six-month period, (ii) a decrease in administrative expenses due to timing of payments, (iii) an increase in directors and officers insurance, (iv) a decrease in director's fees resulting from a reduction in the size of MACC's Board of Directors, and (v) an increase in expenses associated with compliance with the 1940 Act.

### Investment Expense, Net

For the current year six-month period, MACC recorded investment expense, net of \$319,043, as compared to investment expense, net of \$413,744 during the prior year six-month period, a decrease of \$94,701, or 23%. The decrease in investment expense, net is the result of the decrease in operating expenses described above, partially offset by the decrease in investment income described above.



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### Net Realized Gain on Investments

During the current year six-month period, MACC recorded net realized gain on investments of \$5,493, as compared with net realized loss on investments of \$95,980 during the prior year six-month period. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. Under the InvestAmerica Advisory Agreements, InvestAmerica earned an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to InvestAmerica under the InvestAmerica Advisory Agreements. Under the EAM Advisory Agreement, EAM will earn an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. Under the terms of the Subadvisory Agreement, a portion of such incentive fee will be payable to InvestAmerica with respect to the portion of MACC's portfolio managed by InvestAmerica.

### Net Change in Unrealized Appreciation/Depreciation of Investments and Other Assets

Net change in unrealized appreciation/depreciation on investments represents the change for the period in the unrealized appreciation, net of unrealized depreciation, on MACC's total investment portfolio based on the valuation method described under "Critical Accounting Policy".

MACC recorded net change in unrealized appreciation/depreciation on investments of (\$921,330) during the current year six-month period, as compared to \$479,357 during the prior year six-month period. This net change resulted from:

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- \* Unrealized appreciation in the fair value of two portfolio companies totaling \$743,338 during the current year six-month period, as compared to unrealized appreciation in the fair value of six portfolio companies totaling \$1,129,357 during the prior year six-month period.
  - \* Unrealized depreciation in the fair value of eight portfolio companies of \$1,664,668 during the current year six-month period, as compared to unrealized depreciation in the fair value of four portfolio companies of \$650,000 during the prior year six-month period.

The net change in unrealized gain on other assets of \$6,628 during the current year six-month period was recorded with respect to other securities which are classified as other assets, as compared to a net change in unrealized gain on other assets of \$25,686 during the prior year six-month period.

### **Financial Condition, Liquidity and Capital Resources**

MACC relies upon several sources to fund its operations and investment activities, including MACC's cash and money market accounts and a revolving loan, as further described below.

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As of March 31, 2008, MACC's cash and money market accounts totaled \$308,257. As reported elsewhere, MorAmerica Capital had entered into (i) a term loan to refinance the SBA Debentures, which was subsumed by MACC on April 30, 2008, as a result of the Merger, and which has a current balance of \$6,018,064 (the "Note Payable"), and (ii) a revolving loan permitting MorAmerica Capital (now MACC) to borrow up to \$500,000, with Cedar Rapids Bank & Trust Company. As of March 31, 2008, MACC believes that its existing cash and money market accounts, the revolving loan, and other anticipated cash flows will provide adequate funds for MACC's anticipated cash requirements during fiscal year 2008, including follow on investments respecting the Existing Portfolio, interest payments on the Note Payable and administrative expenses. With respect to the Existing Portfolio, MACC is not making new investments, is prudently disposing of Existing Portfolio assets and is using the resulting proceeds to pay down the Note Payable. MACC anticipates commencing its new investment strategy under the EAM Advisory Agreement when it raises additional capital.

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The following table shows MACC's significant contractual obligations for the repayment of the Note Payable and other contractual obligations as of March 31, 2008:

### Payments due by period

Contractual Obligations

		Less than 1 Year	1-3 Years	
	Total	Year	1-3 Years	
	-----	-----	-----	-----
Note Payable	\$ 6,018,064	---	6,018,064	
Incentive Fees Payable	\$ 27,617	27,617	---	

MACC currently anticipates that it will rely primarily on its current cash and money market accounts and its cash flows from operations to fund its investment activities in the Existing Portfolio and other cash requirements during fiscal year 2008. With respect to MACC's investment strategy following the effectiveness of the EAM Advisory Agreement, the Board of Directors sought and received approval by the shareholders for a proposal to issue rights to acquire shares of MACC's Common Stock as a means by which MACC may raise additional equity capital. Although management believes these sources will provide sufficient funds for MACC to meet its fiscal year 2008 investment level objective and other anticipated cash requirements, there can be no assurances that MACC's cash flows from operations or cash requirements will be as projected.

### **Portfolio Activity**

With respect to the Existing Portfolio, MACC has invested in and lended to businesses through investments in subordinated debt (generally with detachable equity warrants), preferred stock and common stock. MACC, however, is not currently making new investments. The total portfolio value of investments in publicly and non-publicly traded securities was \$15,691,859 at March 31, 2008 and \$16,704,954 at September 30, 2007. During the three months ended March 31, 2008, MACC made no follow-on investments in portfolio companies. As noted above, MACC intends to pursue an investment strategy consisting of new equity

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investments in very small public companies, and may continue to make follow-on investments in its Existing Portfolio.

With respect to the Existing Portfolio, MACC frequently co-invests with other funds managed by InvestAmerica. When it makes any co-investment with these related funds, MACC follows certain procedures consistent with orders of the Securities and Exchange Commission ("SEC") for related party co-investments to reduce or eliminate conflict of interest issues. During the current year first quarter, no co-investments with another fund managed by InvestAmerica were made.

### **Critical Accounting Policy**

Investments in securities that are traded in the over-the-counter market or on a stock exchange are valued by taking the average of the close (or bid price in the case of over-the-

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counter equity securities) for the valuation date and the preceding two days. Restricted and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors. Among the factors considered in determining the fair value of investments are the cost of the investment; developments, including recent financing transactions, since the acquisition of the investment; the financial condition and operating results of the investee; the long-term potential of the business of the investee; market interest rates on similar debt securities; overall market conditions and other factors generally pertinent to the valuation of investments. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

In the valuation process, MACC uses financial information received monthly, quarterly, and annually from its portfolio companies which includes both audited and unaudited financial statements. This information is used to determine financial condition, performance, and valuation of the portfolio investments.

Realization of the carrying value of investments is subject to future developments. Investment transactions are recorded on the trade date and identified cost is used to determine realized gains and losses. Under the provisions of SOP 90-7, the fair value of loans and investments in portfolio securities on February 15, 1995, the fresh-start date, is considered the cost basis for financial statement purposes.

### **Determination of Net Asset Value**

The net asset value per share of MACC's outstanding common stock is determined quarterly, as soon as practicable after and as of the end of each calendar quarter, by dividing the value of total assets minus total liabilities by the total number of shares outstanding at the date as of which the determination is made.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

MACC is subject to market risk from changes in market prices of publicly traded equity securities held from time to time in the MACC consolidated investment portfolio. At March 31, 2008, MACC had no publicly traded equity securities in the MACC consolidated investment portfolio.

MACC is also subject to financial market risks from changes in market

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interest rates. The Note Payable is subject to a variable interest rate that is based on an independent index. Although this independent index is subject to change, the maximum increase or decrease in the interest rate at any one time may not exceed 1.000 percentage points. General interest rate fluctuations may therefore have a material adverse effect on MACC's net investment income.

In addition, in the future, MACC may from time to time opt to draw on its revolving line of credit to fund cash requirements. These future borrowings will have a variable interest rate based on an independent index that is subject to change; however, the maximum increase or decrease in the interest rate at any one time will not exceed 1.000 percentage points.

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### **Item 4T. Controls and Procedures**

As of the end of the period covered by this report, in accordance with Item 307 of Regulation S-K promulgated under the Securities Act of 1933, as amended, the Chief Executive Officer and Chief Financial Officer of MACC (the "Certifying Officers") have conducted evaluations of MACC's disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed MACC's disclosure controls and procedures and have concluded that those disclosure controls and procedures are effective as of the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), each of the Certifying Officers executed an Officer's Certification included in this Quarterly Report on Form 10-Q.

As of the date of this Quarterly Report on Form 10-Q, there have not been any significant changes in MACC's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

There are no items to report.

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

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There are no material changes to report from the risk factors disclosed in MACC's Annual Report on Form 10-K for the year ended September 30, 2007.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

There are no items to report.

### **Item 3. Defaults Upon Senior Securities.**

There are no items to report.

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

There are no items to report.

### **Item 5. Other Information.**

There are no items to report.

### **Item 6. Exhibits.**

The following exhibits are filed with this Quarterly Report on Form 10-Q:

- 10.1 Investment Advisory Agreement dated April 29, 2008 between MACC Private Equities Inc. and Eudaimonia Asset Management, LLC (incorporated by reference to Exhibit 10.1 of Report on Form 8-K filed May 1, 2008).
- 10.2 Investment Subadvisory Agreement dated April 29, 2008 among MACC Private Equities Inc., Eudaimonia Asset Management, LLC and InvestAmerica Investment Advisors, Inc. (incorporated by reference to Exhibit 10.2 of Report on Form 8-K filed May 1, 2008).
- 10.3 Business Loan Agreement dated August 30, 2007 between MorAmerica Capital Corporation and Cedar Rapids Bank and Trust (incorporated by reference to Exhibit 10(i).1 to Report on Form 8-K filed September 6, 2007).
- 10.4 Omnibus Amendment Consent and Waiver dated as of April 29, 2008 among MACC Private Equities Inc., MorAmerica Capital Corporation and Cedar Rapids Bank and Trust (incorporated by reference to Exhibit 10.3 to Report on Form 8-K filed May 1, 2008).
- 10.5 Promissory Note dated August 30, 2007 made by MorAmerica Capital Corporation in favor of Cedar Rapids Bank and Trust (incorporated by reference to Exhibit 10(i).5 to Report on Form 8-K filed September 30, 2007).

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- 10.6 Promissory Note dated August 30, 2007 made by MorAmerica Capital Corporation in favor of Cedar Rapids Bank and Trust (incorporated by reference to Exhibit 10(i).6 to Report on Form 8-K filed September 30, 2007).
  - 31.1 Section 302 Certification of Travis Prentice (CEO)
  - 31.2 Section 302 Certification of Derek Gaertner (CFO)
  - 32.1 Section 1350 Certification of Travis Prentice (CEO)
  - 32.2 Section 1350 Certification of Derek Gaertner (CFO)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MACC PRIVATE EQUITIES INC.

Date: 5/8/08 -----	By: /s/Travis Prentice ----- Travis Prentice, President and CEO
Date: 5/8/08 -----	By: /s/Derek Gaertner ----- Derek Gaertner, Chief Financial Officer

## EXHIBIT INDEX

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