

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

MACC PRIVATE EQUITIES INC  
Form 10-Q  
August 13, 2008

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2008

TRANSITION REPORT UNDER 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)

-----  
(Former name, former address and former fiscal year, if changed since last report)

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 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   
Non-accelerated filer

Accelerated filer   
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

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At June 30, 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**

	June 30, 2008 (Unaudited)
	-----
<b>Assets</b>	
Cash and cash equivalents	\$ 345,967
Loans and investments in portfolio securities, at market or fair value:	
Unaffiliated companies (cost of \$2,281,494 and \$2,301,385)	1,637,026
Affiliated companies (cost of \$12,270,802 and \$13,007,879)	10,804,221
Controlled companies (cost of \$2,979,106 and \$3,040,043)	2,490,150
Interest receivable	312,237
Other assets	301,630
	-----
Total assets	\$ 15,891,231
	=====
<b>Liabilities and net assets</b>	
Liabilities:	
Note payable	\$ 4,855,661
Incentive fees payable	23,061
Accounts payable and other liabilities	189,014
	-----
Total liabilities	5,067,736
	-----
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	13,398,854
Unrealized depreciation on investments	(2,600,005)
	-----
Total net assets	10,823,495
	-----
Total liabilities and net assets	\$ 15,891,231
	=====
Net assets per share	\$ 4.39
	=====

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 June 30, 2008	For the three months ended June 30, 2007	For the nine months ended June 30, 2008
	-----	-----	-----
Investment income:			
Interest			
Unaffiliated companies	\$ 8,263	12,394	25,000
Affiliated companies	101,248	144,720	407,000
Controlled companies	8,952	29,129	39,000
Other	72	13,495	2,000
Dividends			
Affiliated companies	163,326	53,414	261,000
Other income	---	---	
	-----	-----	-----
Total investment income	281,861	253,152	736,000
	-----	-----	-----
Operating expenses:			
Interest expenses	93,377	158,695	330,000
Management fees	75,107	78,159	205,000
Professional fees	99,263	26,830	353,000
Other	94,274	66,908	245,000
	-----	-----	-----
Total operating expenses	362,021	330,592	1,135,000
	-----	-----	-----
Investment expense, net	(80,160)	(77,440)	(399,200)
	-----	-----	-----
Realized and unrealized gain (loss) on investments and other assets:			
Net realized gain on investments:			
Unaffiliated companies	101,616	309,357	107,000
Affiliated companies	584,431	---	584,000
Net change in unrealized appreciation/depreciation on investments	(34,322)	270,950	(955,600)
Net change in unrealized gain on other assets	(40,628)	(25,686)	(34,000)
	-----	-----	-----
Net gain (loss) on investments	611,097	554,621	(298,100)
	-----	-----	-----
Net change in net assets from operations	\$ 530,937	477,181	(697,300)
	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the nine months ended June 30, 2008
	-----
Cash flows (used in) from operating activities:	
Net change in net assets from operations	\$ (697,315)
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	264,112
Net realized and unrealized loss (gain) on other assets	34,000
Proceeds from disposition of and payments on loans and investments in portfolio securities	1,561,445
Purchases of loans and investments in portfolio securities	(52,000)
Change in interest receivable	(43,639)
Change in other assets	(122,690)
Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities	(167,529)
	-----
Net cash provided by operating activities	776,384
Cash flows from financing activities:	
Note repayment	(1,252,712)
Debt repayment	---
	-----
Net cash used in financing activities	(1,252,712)
	-----
Net decrease in cash and cash equivalents	(476,328)
Cash and cash equivalents at beginning of period	822,295
	-----
Cash and cash equivalents at end of period	\$ 345,967
	=====
Supplemental disclosure of cash flow information -	
Cash paid during the period for interest	\$ 318,103
	=====
Supplemental disclosure of noncash investing and financing information -	
Assets received in exchange of securities	\$ ---
	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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**MACC PRIVATE EQUITIES INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(1) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of MACC Private Equities Inc. ("MACC," "we" or "us") and our 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"). As a result of the Merger, MACC has assumed all of MorAmerica Capital's assets and liabilities. Because MorAmerica was a wholly-owned subsidiary of MACC prior to the Merger, the Merger had no impact on the consolidated financial statements.

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 MorAmerica Capital 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 on a stock exchange are valued based on the last quoted sale price on the valuation date (or if no sales occurred on the valuation date, the closing bid price on that date). Securities traded on the over-the-counter market are valued by taking the bid price on the valuation date. Restricted and other securities for which quotations are not readily available are valued at fair value as determined by our 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, we use financial information received monthly, quarterly, and annually from our portfolio companies which includes both audited

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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.

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### MACC PRIVATE EQUITIES INC.

#### Notes to Unaudited Condensed Consolidated Financial Statements

#### (3) Financial Highlights (Unaudited)

	For the nine months ended June 30, 2008	For the nine months ended June 30, 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	(0.16)	(0.19)
Net realized and unrealized gain (loss) on investment transactions	(0.12)	0.3
	-----	-----
Total from investment operations	(0.28)	0.2
	-----	-----
Net asset value, end of period	\$ 4.39	4.9
	=====	=====
Closing bid price	\$ 2.15	2.3
	=====	=====
	For the nine months ended June 30, 2008	For the nine months ended June 30, 2007
	-----	-----
Total return		
Net asset value basis	(6.05) %	4.0
Market price basis	(12.24) %	29.2
Net asset value, end of period (in thousands)	\$ 10,823	12,09
	-----	-----
Ratio to weighted average net assets:		
Investment expense, net	3.68 %	4.2
Operating and income tax expense	10.48 %	10.4

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

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

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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. We are evaluating the effect, if any, the adoption of SFAS 159 will have on our 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. We are evaluating the effect, if any, the adoption of SOP 07-1 will have on our consolidated financial statements.

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**MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)  
JUNE 30, 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	12% debt security, due March 31, 2009 12% debt security, due March 31, 2009 Warrant to purchase 273.28 common shares	



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cellulose fiber products

<p>Detroit Tool Metal Products Co. (a)            Lebanon, Missouri            Metal stamping</p>	<p>12% debt security, due November 18, 2009            19,853.94 share Series A preferred (c)            7,887.17 common shares (c)</p>
<p>Handy Industries, LLC (a)            Marshalltown, Iowa            Manufacturer of lifts for            motorcycles, trucks and            industrial metal products</p>	<p>12.5% debt security, due January 8, 2008            167,171 units Class B preferred (c)            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)...  
 JUNE 30, 2008

Manufacturing Continued:  
 Company

Security

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Pratt-Read Corporation (a) Bridgeport, Connecticut Manufacturer of screwdriver shafts and handles and other hand tools	13,889 shares Series A Preferred (c) 7,718 shares Services A preferred (c) 13% debt security, due July 26, 2007 (c) Warrants to purchase common shares (c)
Spectrum Products, LLC (b) Missoula, Montana Manufacturer of equipment for the swimming pool industry	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)
Superior Holding, Inc. (a) Wichita, Kansas Manufacturer of industrial and commercial boilers and shower doors, frames and enclosures	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)

Total manufacturing

89.61

=====

**Service:**

Monitronics International, Inc. Dallas, Texas Provides home security systems monitoring services	73,214 common shares (c)
Morgan Ohare, Inc. (b) Addison, Illinois Fastener plating and heat treating	0% debt security, due January 1, 2009 (c) 10% debt security, due January 1, 2009 57 common shares (c)
SMWC Acquisition Co., Inc. (a) Kansas City, Missouri Steel warehouse distribution and processing	13% debt security due September 30, 2011 12% debt security due September 30, 2011 Warrant to purchase 2,200 common shares (c)
Warren Family Funeral Homes, Inc. Topeka, Kansas Provider of value priced funeral services	Warrant to purchase 346.5 common shares (c)

Total Service

24.

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**MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED (UNAUDITED)...  
JUNE 30, 2008**

**Service Continued:**

<b>Company</b>	<b>Security</b>	<b>Perce of asse</b>
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**Technology and Communications:**

Feed Management Systems, Inc. (a) Brooklyn Center, Minnesota Batch feed software and systems and B2B internet services	540,551 common shares (c) 674,309 shares 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)	

Total technology and communications

24.  
=====

- (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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### OF OPERATIONS

*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

Our 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.

#### Third Quarter Ended June 30, 2008 Compared to Third Quarter Ended June 30, 2007

	For the three months ended June 30,	
	2008	2007
Total investment income	\$ 281,861	253,1
Net operating and income tax expense	(362,021)	(330,59
	(80,160)	(77,44
Investment expense, net		
Net realized gain on investments	686,047	309,3
Net change in unrealized appreciation/ depreciation on investments and other assets	(34,322)	270,9
Net change in unrealized loss on other assets	(40,628)	(25,68
	611,097	554,6
Net gain on investments		
Net change in net assets from operations	\$ 530,937	477,1
Net asset value per share:		
Beginning of period	\$ 4.18	4.
End of period	\$ 4.39	4.

**Total Investment Income**

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During the current fiscal year third quarter, total investment income was \$281,861, an increase of \$28,709, or 11%, from total investment income of \$253,152 for the prior year third quarter. In the current year third quarter as compared to the prior year third quarter, interest income decreased \$81,203, or 41%, and dividend income increased \$109,912, or 206%. 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, and (iii) a decrease in interest income on three debt portfolio securities which have been placed on non-accrual of interest status. In the current year third quarter, we

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received dividends on two existing portfolio investments, as compared to dividend income received in the prior year third quarter from three existing portfolio investments, however the current year dividends were larger. We do not anticipate that our dividend income will continue to increase in future periods.

### **Net Operating Expenses**

Net operating expenses for the third quarter of the current year were \$362,021, an increase of \$31,429, or 10%, as compared to net operating expenses for the prior year third quarter of \$330,592. Interest expense decreased \$65,318, or 41%, in the current year third quarter due to the repayment in the prior fiscal year of \$10,790,000 of borrowings (the "SBA Debentures") from the Small Business Administration. Management fees decreased \$3,052, or 4%, in the current year third quarter due to the decrease in capital under management. Professional fees increased \$72,433, or 270%, in the current year third quarter as compared to the prior year third quarter due to expenses related to changes in the investment advisory structure, the Merger and the exploration of capital raising options. Other expenses increased \$27,366, or 41%, in the current year third quarter as compared to the prior year third quarter. The increase in other expenses is primarily the result of an increase in expenses associated with compliance with the Security and Exchange Commission ("SEC") regulations.

### **Investment Expense, Net**

For the current year third quarter, we recorded investment expense, net of \$80,160, as compared to investment expense, net of \$77,440 during the prior year third quarter, an increase of \$2,720, or 4%. The increase in investment expense, net is the result of the decrease in investment income described above and the increase in operating expenses described above.

### **Net Realized Gain on Investments**

During the current year third quarter, we recorded net realized gain on investments of \$686,047, as compared with net realized gain on investments of \$309,357 during the prior year third 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 between us and our investment adviser, InvestAmerica Investment Advisors, Inc. ("InvestAmerica"), and between MorAmerica and InvestAmerica (together, the "InvestAmerica Advisory Agreements"), both of which were in effect prior to their termination during the third quarter of fiscal 2008, InvestAmerica earned an incentive fee calculated as a percentage of the excess of our 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

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the incentive fee payable to InvestAmerica under the InvestAmerica Advisory Agreements.

Effective April 29, 2008, the InvestAmerica Advisory Agreements were terminated and we entered into an Investment Advisory Agreement (the "EAM Advisory Agreement") with Eudaimonia Asset Management, LLC ("EAM"). Under the EAM Advisory Agreement, EAM earns an incentive fee which is calculated as a percentage of the excess of our 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 EAM under the EAM Advisory Agreement.

Also effective April 29, 2008, we entered into an Investment Subadvisory Agreement (the "Subadvisory Agreement") with EAM and InvestAmerica, pursuant to which InvestAmerica will continue to manage our portfolio of investments which existed on the effective date of the Subadvisory Agreement (the "Existing Portfolio"). Under the terms of the Subadvisory Agreement, EAM pays InvestAmerica an incentive fee based on a portion of the incentive fees paid to EAM by us under the EAM Advisory Agreement attributable to the Existing Portfolio.

### **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 our total investment portfolio based on the valuation method described under "Critical Accounting Policy."

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We recorded net change in unrealized appreciation/depreciation on investments of (\$34,322) during the current year third quarter, as compared to \$270,950 during the prior year third quarter. This net change resulted from:

No unrealized appreciation during the current year third quarter, as compared to unrealized appreciation in the fair value of two portfolio companies totaling \$466,300 during the prior year third quarter.

Unrealized depreciation in the fair value of one portfolio company of \$34,322 during the current year third quarter, as compared to no unrealized depreciation during the prior year third quarter.

No reversal of unrealized appreciation during the current year third quarter, as compared to the reversal of unrealized appreciation of \$195,350 in one portfolio company during the prior year third quarter.

### **Net Change in Net Assets from Operations**

We experienced an increase of \$530,937 in net assets for the third quarter of fiscal year 2008, and the resulting net asset value per share was \$4.39 as of June 30, 2008, as compared to \$4.67 as of September 30, 2007. The increase in net assets recorded during the current year third quarter was the result of the net realized gain on investments, as described above.

We have six 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

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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 we are not currently making investments in new portfolio companies (but may periodically make follow-on investments in Existing Portfolio companies), as previously announced, our investment strategy under the EAM Advisory Agreement going forward is to make new equity investments in small-cap and micro-cap companies which qualify for investment by business development companies ("BDCs") under the Investment Company Act of 1940, as amended (the "1940 Act"). Under the Subadvisory Agreement, InvestAmerica will continue to oversee the Existing Portfolio. We 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.

### Nine Months Ended June 30, 2008 Compared to Nine Months Ended June 30, 2007

	For the nine months ended June 30,	
	2008	2007
Total investment income	\$ 736,163	720,4
Net operating and income tax expense	(1,135,366)	(1,211,60)
	(399,203)	(491,18)
Investment expense, net		
Net realized (loss) gain on investments	691,540	213,3
Net change in unrealized appreciation/ depreciation on investments and other assets	(955,652)	750,3
Net change in unrealized loss on other assets	(34,000)	-
	(298,112)	963,6
Net gain (loss) on investments		

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Net change in net assets from operations	\$ (697,315)	472,5
Net asset value per share:		
Beginning of period	\$ 4.67	4.
End of period	\$ 4.39	4.

### **Total Investment Income**

During the current fiscal year nine-month period, total investment income was \$736,163, an increase of \$15,741, or 2%, from total investment income of \$720,422 for the prior year nine-month period. In the current year nine-month period as compared to the prior year nine-month period, interest income decreased \$146,027, or 24%, and dividend income increased \$161,762 or 162%. The

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decrease in interest income is the net result of (i) repayments of principal on debt portfolio securities issued to us by five Existing 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 nine-month period, but which made interest payments during the current nine-month period prior to being placed again on non-accrual of interest status, and (iv) a decrease in interest income on two debt portfolio securities which have been placed on non-accrual of interest status. Debt portfolio securities are placed on non-accrual of interest status when the borrower is financially unable to make required interest payments. In both the current year nine-month period and the prior year nine-month period, we received dividends on three Existing Portfolio investments; however, the current-year dividends were larger.

### **Net Operating Expenses**

Net operating expenses for the nine-month period of the current year were \$1,135,366, a decrease of \$76,240, or 6%, as compared to net operating expenses for the prior year nine-month period of \$1,211,606. Interest expense decreased \$230,223, or 41%, in the current year nine-month period due to the repayment in the prior fiscal year of the SBA Debentures. Management fees decreased \$45,919, or 18%, in the current year nine-month period due to the decrease in capital under management. Professional fees increased \$188,877, or 114%, in the current year nine-month period due to expense related to changes in the investment advisory structure, the Merger and the exploration of capital raising options. Other expenses increased \$11,025, or 5%, in the current year nine-month period as compared to the prior year nine-month period. The increase in other expenses is the net result of (i) a decrease in prepayment penalties incurred on the repayment of the SBA Debentures during the prior year nine-month period, (ii) a decrease in administrative expenses due to timing of payments, (iii) an increase in directors and officers insurance, (iv) an increase in directors travel expenses, and (v) an increase in expenses associated with compliance with SEC regulations.

### **Investment Expense, Net**

For the current year nine-month period, we recorded investment expense, net of \$399,203, as compared to investment expense, net of \$491,184 during the prior year nine-month period, a decrease of \$91,981, or 19%. The decrease in investment expense, net is primarily the result of the decrease in net operating expenses described above.

### **Net Realized Gain on Investments**

During the current year nine-month period, we recorded net realized gain on investments of \$691,540, as compared with net realized gain on investments of \$213,377 during the prior year nine-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 (prior to their termination during the current year third quarter), InvestAmerica earned an incentive fee calculated as a percentage of the excess of our realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. Similarly, under the EAM Advisory Agreement, EAM is entitled to earn an incentive fee which is calculated as a percentage of the excess of our 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 EAM under the EAM Advisory Agreement and to InvestAmerica under the InvestAmerica Advisory Agreements.

**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 our total investment portfolio based on the valuation method described under "Critical Accounting Policy." We recorded net change in unrealized depreciation on investments of (\$955,652) during the current year nine-month period, as compared to \$750,307 during the prior year nine-month period. This net change resulted from:

Unrealized appreciation in the fair value of two portfolio companies totaling \$743,338 during the current year nine-month period, as compared to unrealized appreciation in the fair value of five portfolio companies totaling \$1,520,657 during the prior year nine-month period.

Unrealized depreciation in the fair value of eight portfolio companies of \$1,698,990 during the current year nine-month period, as compared to unrealized depreciation in the fair value of five portfolio companies of \$770,350 during the prior year nine-month period.

The net change in unrealized loss on other assets of \$34,000 during the current year nine-month period was recorded with respect to other securities which are classified as other assets, as compared to no change in unrealized loss on other assets during the prior year nine-month period.

**Financial Condition, Liquidity and Capital Resources**

As of June 30, 2008, our cash and money market accounts totaled \$345,967. As reported elsewhere, MorAmerica Capital had entered into (i) a term loan to refinance the SBA Debentures, which was assumed by us on April 30, 2008 as a result of the Merger, and which has a current balance of \$4,855,661 (the "Note Payable"), and (ii) a revolving loan permitting MorAmerica Capital (now us) to borrow up to \$500,000, with Cedar Rapids Bank & Trust Company. As of June 30, 2008, we believe that our existing cash and money market accounts, the revolving loan, and other anticipated cash flows will provide adequate funds for our 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, we are not making new investments, is prudently disposing of Existing Portfolio assets and is using the resulting proceeds to pay down the Note Payable. We anticipate commencing our new investment strategy under the EAM Advisory Agreement when we raise additional capital.

The following table shows our significant contractual obligations for the repayment of the Note Payable and other contractual obligations as of June 30, 2008:

**Payments due by period**

Contractual Obligations

	Less			
Total	than 1 Year	1-3 Years	3-5 Years	More 5 Years
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Note Payable	\$	4,855,661	---	4,855,661	---
Incentive Fees Payable	\$	23,061	23,061	---	---

We currently anticipate that we will rely primarily on our current cash and money market accounts and our cash flows from operations to fund our investment activities in the Existing Portfolio and other cash requirements during fiscal year 2008. With respect to our investment strategy under the EAM Advisory Agreement, our Board of Directors sought and received approval by the shareholders for a proposal to issue rights to acquire shares of our Common Stock as a means by which we may raise additional equity capital. Although management believes these sources will provide sufficient funds for us to meet our fiscal year 2008 investment level objective and other

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anticipated cash requirements, there can be no assurances that our cash flows from operations or cash requirements will be as projected.

### **Portfolio Activity**

With respect to the Existing Portfolio, we have invested in and lended to businesses through investments in subordinated debt (generally with detachable equity warrants), preferred stock and common stock. We, however, are not currently making new investments. The total portfolio value of investments in publicly and non-publicly traded securities was \$14,931,397 at June 30, 2008 and \$16,704,954 at September 30, 2007. During the three months ended June 30, 2008, we invested \$52,000 in a follow-on investment in one portfolio company. As noted above, we intend to pursue an investment strategy consisting of new equity investments in very small public companies that qualify for investment by BDCs under the 1940 Act, and may continue to make follow-on investments in our Existing Portfolio.

With respect to the Existing Portfolio, we frequently co-invest with other funds managed by InvestAmerica. When it makes any co-investment with these related funds, we follow certain procedures consistent with orders of the SEC for related party co-investments to reduce or eliminate conflict of interest issues. All of the \$52,000 invested during the current year third quarter represented co-investments with another fund managed by InvestAmerica.

### **Critical Accounting Policy**

Investments in securities that are traded in on a stock exchange are valued based on the last quoted sale price on the valuation date (or if no sales occurred on the valuation date, the closing bid price on that date). Securities traded on the over-the-counter market are valued by taking the bid price on the valuation date. Restricted and other securities for which quotations are not readily available are valued at fair value as determined by our 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 portfolio company; the long-term potential of the business of the portfolio company; 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, we use financial information received monthly,

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quarterly, and annually from our 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 our 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**

We are subject to market risk from changes in market prices of publicly-traded equity securities held from time to time in our investment portfolio. At June 30, 2008, we had no publicly-traded equity securities in the Existing Portfolio, but, as noted elsewhere, we intend to pursue an investment strategy consisting of new equity investments in very small public companies that qualify for investment by BDCs under the 1940 Act.

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We are also subject to financial market risks from changes in market 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 our net investment income.

In addition, in the future, we may from time to time opt to draw on our 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.

### **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, our Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") have conducted evaluations of our 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

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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 our 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 our 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.

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings.

There are no items to report.

#### Item 1A. Risk Factors.

We have identified the following risk factors applicable to us following the effectiveness of the EAM Advisory Agreement and the implementation of our new investment strategy by EAM, which will focus on equity investments in small-cap and micro-cap companies.

***EAM has no experience managing a BDC, and will serve as investment adviser to other accounts and funds, which may create conflicts of interest not in the best interest of us or our stockholders.***

EAM has no experience serving as an investment adviser to a BDC. While EAM intends to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies, and in accordance with its written allocation procedures so that we will not be disadvantaged in relation to any other client, EAM's services under the EAM Advisory Agreement are not exclusive. EAM is free to furnish the same or similar services to other entities, including businesses that may directly or indirectly compete with us, so long as EAM notifies us prior to being engaged to serve as investment adviser to another fund and further provided that any such

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investment management services and any co-investments shall at all times be provided in strict accordance with rules and regulations under the 1940 Act, EAM's asset allocation policy required thereunder and any exemptive order applicable to us. In addition, the private accounts managed by EAM may make investments similar to investments that we may pursue. Accordingly, EAM may have obligations to other investors, the fulfillment of which might not be in the best interests of us or our stockholders, and it is possible that EAM might allocate investment opportunities to other client, and thus might divert attractive investment opportunities away from us.

***The Incentive Fee payable to EAM may create conflicting incentives.***

EAM will receive an incentive fee based, in part, upon net realized capital

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gains on our investments. As a result, EAM may have an incentive to pursue investments that are likely to result in capital gains as compared to income-producing securities. Such a practice could result in our investing in more speculative or long-term securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns or longer return cycles.

***We will be exposed to market risks associated with investments in equity securities.***

Upon implementation by EAM of our new investment strategy, we will ordinarily have substantial exposure to common stocks and other equity securities in pursuing our investment objective and policies. The market price of equity securities, including common and preferred stocks, may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets or the issuer itself, including the historical and prospective earnings of the issuer and the value of its assets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities, and particularly common stocks, generally have greater price volatility than bonds and other debt securities.

***We will be particularly sensitive to the risks associated with equity investments in small-cap and micro-cap companies.***

As noted above, our new investments will be focused on common stocks of small-cap and micro-cap companies. We will therefore be particularly sensitive to the risks associated with small companies. The general risks associated with equity securities are particularly pronounced for securities issued by companies with small market capitalizations. Micro-cap and other small capitalization companies may offer greater opportunities for capital appreciation than larger companies, but may also involve certain special risks. They are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. They may also trade in the over-the-counter market or on a regional exchange, or may otherwise have limited liquidity. These securities may therefore be more vulnerable to adverse developments than securities of larger companies, and we may have difficulty establishing or closing out our securities positions in smaller companies at prevailing market prices. Also, there may be less publicly available information about smaller companies or less market interest in their securities as compared to larger companies, and it may take longer for the prices of the securities to reflect the full value of the issuers' earnings potential or assets.

***We may engage in short selling, which creates the risk of a theoretically unlimited loss.***

Upon implementation by EAM of our new investment strategy, we may engage in short selling. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of

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buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be

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available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

***As a BDC, we are subject to limitations on our ability to engage in certain transactions with affiliates.***

As a result of our election to be regulated as a BDC, we are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors or the SEC. The 1940 Act defines "affiliates" broadly to include (i) any person that owns, directly or indirectly, 5% or more of our outstanding voting securities, (ii) any person of which we own 5% or more of their outstanding securities, (iii) any person who directly or indirectly controls us, (iv) our officers, directors and employees, and (v) EAM and InvestAmerica, among others, and we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25% of our voting securities, we will be prohibited from buying or selling any security from or to such person, or entering into joint transactions with such person, absent the prior approval of the SEC.

***If our investments are deemed not to be qualifying assets, we could lose our status as a BDC or be precluded from investing according to our current business plan.***

As a result of our election to be regulated as a BDC, we must not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. Generally, "qualifying assets" are (i) securities purchased in private offerings from (a) "eligible portfolio companies" or from affiliates of the eligible portfolio company, or (b) U.S.-organized companies which are not investment companies having a class of securities for which a broker may extend margin credit, if at the time of purchase, we own at least 50% of such company's equity and debt securities, and we are one of the 20 largest holders of the company's outstanding voting securities; (ii) securities of eligible portfolio companies which we control; (iii) securities purchased in private offerings from either a U.S.-organized company which is not an investment company with a class of securities for which a broker may extend margin credit or from an affiliate of such company, if the company is in reorganization, consummating a plan of reorganization or insolvent; (iv) securities purchased in private offerings from an eligible portfolio company if there is no market for such securities and if prior to such purchase we own at least 60% of the company's outstanding equity securities; (v) securities received in exchange for or distributed on or with respect to the securities described in (i) - (iv) above or pursuant to the exercise of an option or warrant; (vi) cash, government securities or high quality debt securities having maturities of one year or less; and (vii) our office furniture, real estate or leases, deferred organizational and operating expenses and our other noninvestment assets required for our operations as a BDC.

"Eligible portfolio companies" are generally companies which are organized

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in the United States, are not investment companies, and which either: (i) do not have securities for which a broker may extend margin credit, (ii) are controlled by a BDC or a group including a BDC, (iii) are solvent and have assets under \$4 million and capital and surplus of at least \$2 million, or (iv) (A) do not have a class of securities listed on a national securities exchange, or (B) do have a class of securities listed on a national securities exchange, but have a market capitalization below \$250,000,000.

If, for example, we acquire debt or equity securities from an issuer that has outstanding marginable securities at the time we make such an investment, or if we acquire securities from an issuer which otherwise meets the definition of an eligible portfolio company but we purchase the securities in a public offering, these acquired assets cannot be treated as "qualifying assets." The failure of an investment to meet the definition of a qualifying asset could preclude us from otherwise taking advantage of an investment opportunity we find attractive. In addition, our failure to meet the BDC qualifying asset requirements could result in the loss of BDC status, which would significantly and adversely affect our business plan by, among other things, requiring us to register as a closed-end investment company.

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### ***Our portfolio may be concentrated in a limited number of portfolio companies.***

We intend to make investments in a limited number of portfolio companies. An inherent risk associated with this investment concentration is that we may be adversely affected if one or two of our investments perform poorly or if we need to write down the value of any one investment. Financial difficulty on the part of any single portfolio company will expose us to a greater risk of loss than would be the case if we were a more "diversified" company holding numerous investments.

### ***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

Portfolio companies in which we invest usually will have, or may be permitted to incur, debt that ranks senior to, or equally with, our investments, including debt investments. As a result, payments on such securities may have to be made before we receive any payments on our investments. For example, these debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to our investments. These debt instruments will usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying its senior creditors, a portfolio company may not have any remaining assets to use to repay its obligation to us. In the case of debt ranking equally with our investments, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***We expect our debt investments will generally be unsecured and even if we make a secured loan, if the assets securing a loan we make decrease in value, we may not have sufficient collateral to cover losses.***

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We believe our portfolio companies generally will be able to repay our debt investments from their available capital, from future capital-raising transactions or from cash flow from operations. We expect generally that our debt investments that we make will be unsecured. However, in the event we take a security interest in the available assets of a portfolio company, there is a risk that the collateral securing our investment may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, a deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by a deterioration in the value of the collateral for the investment. Moreover, we may not have a first lien position on the collateral. Consequently, the fact that investment is secured does not guarantee that we will receive principal and interest payments according to the investment's terms or that we will be able to collect on the investment should we be forced to enforce our remedies. In addition, a portion of the assets securing our investment may be in the form of intellectual property, if any, inventory and equipment and, to a lesser extent, cash and accounts receivable. Intellectual property, if any, that is securing our investment could lose value if, among other things, the company's rights to the intellectual property are challenged or if the company's license to the intellectual property is revoked or expires. Inventory may not be adequate to secure our investment if our valuation of the inventory at the time we made the loan was not accurate or if there is a reduction in the demand for the inventory. Similarly, any equipment securing our loan may not provide us with the anticipated security if there are changes in technology or advances in new equipment that render the particular equipment obsolete or of limited value or if the company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair our ability to recover principal in a foreclosure.

***The lack of liquidity in our investments may adversely affect our business, and if we need to sell any of our investments, we may not be able to do so at a favorable price. As a result, we may suffer losses.***

The Existing Portfolio generally consists of investments in debt securities with terms of two to ten years, which we generally hold until maturity, and we do not expect that our related holdings of equity securities in the Existing

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Portfolio will provide liquidity opportunities in the near-term. We expect that a majority of the new portfolio investments made pursuant to the EAM Advisory Agreement will consist of companies whose securities are not publicly-traded, and whose securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain our election to be regulated as a BDC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under 1940 Act. Our investments are usually subject to contractual or legal restrictions on resale or are otherwise illiquid because there is no established trading market for such investments. The illiquidity of a majority of our investments may make it difficult for us to dispose of them at a favorable



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price, and, as a result, we may suffer losses.

### 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.

On April 29, 2008, we held our 2008 Annual Meeting of Shareholders (the "Meeting") in Newport Beach, California. A quorum of 1,732,076 shares, or approximately 70.28% of issued and outstanding shares as of March 25, 2008, were represented in person or by proxy at the Meeting. The shareholders considered five proposals at the meeting.

With respect to the first proposal, the shareholders elected five nominees to serve as directors until the 2009 Annual Meeting of Shareholders or until their respective successors shall be elected and qualified. The five directors elected at the Meeting, and the votes cast in favor of and withheld with respect to each, are as follows:

	For ---	Withheld -----
Michael W. Dunn	1,585,220	146,856
James W. Eiler	1,584,152	147,924
Benjamin Jiaravanon	1,546,413	185,663
Gordon J. Roth	1,576,636	155,440
Geoffrey T. Woolley	1,583,751	148,325

With regard to the second proposal, the shareholders voted to approve the EAM Advisory Agreement by a vote of 1,263,492 in favor and 162,139 against approval, with 16,173 shares abstaining.

With regard to the third proposal, the shareholders voted to approve the Subadvisory Agreement by a vote of 1,263,116 in favor and 163,567 against approval, with 15,121 shares abstaining.

With regard to the fourth proposal, the shareholders voted to authorize a rights offering by a vote of 1,539,382 in favor and 176,382 against approval, with 16,312 shares abstaining.

With regard to the fifth proposal, the shareholders voted to ratify the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2008 by a vote of 1,714,287 in favor and 5,348 against approval, with 12,441 shares abstaining.

### Item 5. Other Information.

There are no items to report.

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### Item 6. Exhibits.

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

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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)

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### 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: August 14, 2008

By: /s/ Travis Prentice

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Travis Prentice, President and CEO

Date: August 14, 2008

By: /s/ Derek Gaertner

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Derek Gaertner, Chief Financial Officer

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### EXHIBIT INDEX

Exhibit -----	Description -----
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)

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