

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

MACC PRIVATE EQUITIES INC

Form 10-Q

February 14, 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 December 31, 2007

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.)

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

-----  
(Address of principal executive offices) (Zip Code)

(319) 363-8249  
(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 | | Accelerated filer | | Non-accelerated filer |X|  
| | 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|

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APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. At December 31, 2007, the registrant had issued and outstanding 2,464,621 shares of common stock.

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### **PART I. FINANCIAL INFORMATION**

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Item 1. Financial Statements

MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
Condensed Consolidated Balance Sheets

December 31,  
2007  
(Unaudited)  
-----

**Assets**

Cash and cash equivalents	\$	542,743
Loans and investments in portfolio securities, at market or fair value:		
Unaffiliated companies (cost of \$2,294,887 and \$2,301,385)		1,989,167
Affiliated companies (cost of \$12,983,403 and \$13,007,879)		11,149,353
Controlled companies (cost of \$3,010,356 and \$3,040,043)		2,784,419
Interest receivable		245,583
Other assets		181,346

-----  
Total assets

\$ 16,892,611  
=====

**Liabilities and net assets**

Liabilities:

Note payable	\$	6,059,845
Incentive fees payable		29,720
Accounts payable and other liabilities		51,149

-----  
Total liabilities

6,140,714  
-----

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		13,092,958
Unrealized depreciation on investments		(2,365,707)

-----  
Total net assets

10,751,897  
-----

Total liabilities and net assets

\$ 16,892,611  
=====

Net assets per share

\$ 4.36  
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See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Operations  
(Unaudited)

	For the three months ended December 31, 2007
	-----
Investment income:	
Interest	
Unaffiliated companies	\$ 8,529
Affiliated companies	142,970
Controlled companies	21,511
Other	1,731
Dividends	
Affiliated companies	85,263
	-----
Total investment income	260,004
	-----
Operating expenses:	
Interest expenses	128,115
Management fees	66,964
Professional fees	55,720
Other	56,764
	-----
Total operating expenses	307,563
	-----
Investment expense, net	(47,559)
	-----
Realized and unrealized (loss) gain on investments: Net realized gain on investments:	
Unaffiliated companies	---
Net change in unrealized appreciation/depreciation investments	(721,354)
	-----
Net (loss) gain on investments	(721,354)
	-----
Net change in net assets from operations	\$ (768,913)
	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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

For the three  
months ended  
December 31,  
2007

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Cash flows from (used in) operating activities:	
Net change in net assets from operations	\$ (768,913)
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	721,354
Proceeds from disposition of and payments on loans and investments in portfolio securities	60,661
Purchases of loans and investments in portfolio securities	---
Change in interest receivable	23,015
Change in other assets	31,594
Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities	(298,735)
	-----
Net cash provided by (used in) operating activities	(231,024)
Cash flows from financing activities:	
Note repayment	(48,528)
	-----
Net cash used in financing activities	(48,528)
	-----
Net (decrease) increase in cash and cash equivalents	(279,552)
Cash and cash equivalents at beginning of period	822,295
	-----
Cash and cash equivalents at end of period	\$ 542,743
	=====
Supplemental disclosure of cash flow information -	
Cash paid during the period for interest	\$ 124,048
	= =====

See accompanying notes to unaudited condensed consolidated financial statements.

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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.

(3) Financial Highlights (Unaudited)

For the three months ended December 31, 2007	For the three months ended December 31, 2006
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Per Share Operating Performance

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(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		(0.02)		(0.06)
Net realized and unrealized gain (loss) on investment transactions		(0.29)		0.1
Total from investment operations		(0.31)		0.1
Net asset value, end of period	\$	4.36		4.8
Closing bid price	\$	2.75		2.0
		For the three months ended December 31, 2007		For the three months ended December 31, 2006
Total return				
Net asset value basis		(6.67) %		2.4
Market price basis		12.24 %		(20.70)
Net asset value, end of period (in thousands)	\$	10,752		11,89
Ratio to weighted average net assets:				
Investment expense, net		0.41 %		1.2
Operating and income tax expense		2.68 %		3.4

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 common stockholders as a class. Total return, which reflects the annual change in net assets, was calculated using the 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.

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#### (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. 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,

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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)  
 DECEMBER 31, 2007

**Manufacturing:**

Company	Security	Perc of N 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 motorcycles, trucks and industrial metal products	12.5% debt security, due January 8, 2008 167,171 units Class B preferred (c) Membership interest	
Hicklin Engineering, L.C. (a) Des Moines, Iowa Manufacturer of auto and truck transmission and brake dynamometers	10% debt security, due June 30, 2008 Membership interest	

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Kwik-Way Products, Inc. (a) Marion, Iowa Manufacturer of automobile aftermarket engine and brake repair machinery	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)
Linton Truss Corporation Delray Beach, Florida Manufacturer of residential roof and floor truss systems	542.8 common shares (c) 400 shares Series 1 preferred (c) Warrants to purchase common shares (c)
M.A. Gedney Company (a) Chaska, Minnesota Pickle Processor	648,783 shares preferred (c) 12% debt security, due June 30, 2009 Warrant to purchase 83,573 preferred shares (c)
Magnum Systems, Inc. (a) Parsons, Kansas Manufacturer of industrial bagging equipment	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)

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED (UNAUDITED)...  
DECEMBER 31, 2007

**Manufacturing Continued:**

Company	Security	Perce of Ne asset
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	6% debt security, due April 1, 2010 Warrant to purchase 11,143 common shares (c) 6% debt security, due April 1, 2010	



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commercial boilers and shower doors, frames and enclosures	121,457 common shares (c) 6% debt security, due April 1, 2010 312,000 common shares (c)
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Total manufacturing

96.  
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**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, 2008 (c) 10% debt security, due January 1, 2008 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

25.  
=====

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED (UNAUDITED)...  
 DECEMBER 31, 2007

**Service Continued:**

Company	Security	Perc of asse
-----		
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) Warrants to purchase 166,500 Series A	
MainStream Data, Inc. (a)	322,763 shares Series A preferred (c)	

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Salt Lake City, Utah  
Content delivery solutions  
provider

Phonex Broadband Corporation 1,855,302 shares Series A preferred (c)  
Midvale, Utah  
Power line communications

Portrait Displays, Inc. 8% debt security, due April 1, 2009  
Pleasanton, California 8% debt security, due April 1, 2012 (c)  
Designs and markets pivot Warrant to purchase 39,400 common shares (c)  
enabling software for LCD  
computer monitors

Total technology and communications

26.  
=====

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

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See accompanying notes to unaudited condensed consolidated financial statements.

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### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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**

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.

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First Quarter Ended December 31, 2007 Compared to First Quarter Ended December 31, 2006

	For the three months ended December 31,	
	2007	2006
Total investment income	\$ 260,004	254,351
Net operating and income tax expense	(307,563)	(399,381)
	(47,559)	(145,030)
Investment expense, net		
Net change in unrealized appreciation/ depreciation on investments and other assets	(721,354)	424,000
Net (loss) gain on investments	(721,354)	424,000
Net change in net assets from operations	\$ (768,913)	278,969
Net asset value per share:		
Beginning of period	\$ 4.67	4.67
End of period	\$ 4.36	4.36

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### Total Investment Income

During the current fiscal year first quarter, total investment income was \$260,004, an increase of \$5,653, or 2%, from total investment income of \$254,351 for the prior year first quarter. In the current year first quarter as compared to the prior year first quarter, interest income decreased \$44,300, or 20%, and dividend income increased \$49,953, or more than 100%. The decrease in interest income is the net result of repayments of principal on debt portfolio securities issued by six portfolio companies, an increase in interest income due to an additional debt investment from the restructure in one debt portfolio security and an increase in interest income on one debt portfolio security which had been on non-accrual of interest status during the prior year first quarter but which is currently making interest payments. In both the current year first quarter and the prior year first quarter, MACC received a dividend on one existing portfolio investment, 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 first quarter of the current year were \$307,563, a decrease of \$91,818, or 23%, as compared to net operating expenses for the prior year first quarter of \$399,381. Interest expense decreased \$67,495, or 35%, in the current year first quarter due to the repayment in the

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prior fiscal year of \$10,790,000 of borrowings from the Small Business Administration ("SBA Debentures"). Management fees decreased \$18,730, or 22%, in the current year first quarter due to the decrease in capital under management. Professional fees decreased \$7,494, or 12%, in the current year first quarter as compared to the prior year first quarter. Other expenses increased \$1,901, or 3%, in the current year first quarter as compared to the prior year first quarter.

### Investment Expense, Net

For the current year first quarter, MACC recorded investment expense, net of \$47,559, as compared to investment expense, net of \$145,030 during the prior year first quarter, a decrease of \$97,471, or 67%. The decrease in investment expense, net is the result of the decrease in operating expenses described above and the increase in investment income described above.

### Net Realized Gain on Investments

During the current year first quarter and the prior year first quarter, MACC had no net realized gain or loss on investments. 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. MACC's investment advisor earns 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 the investment advisor.

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### 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 (\$721,354) during the current year first quarter, as compared to \$424,024 during the prior year first quarter. This net change resulted from:

- \* Unrealized appreciation in the fair value of one portfolio company totaling \$175,869 during the current year first quarter, as compared to unrealized appreciation in the fair value of five portfolio companies totaling \$474,024 during the prior year first quarter.
- \* Unrealized depreciation in the fair value of five portfolio companies totaling \$897,223 during the current year first quarter, as compared to unrealized depreciation in the fair value of one portfolio company of \$50,000 during the prior year first quarter.

### Net Change in Net Assets from Operations

MACC experienced a decrease of \$768,913 in net assets for the first quarter of fiscal year 2008, and the resulting net asset value per share was \$4.36 as of December 31, 2007, as compared to \$4.67 as of September 30, 2007.

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

MACC has eight portfolio investments valued at cost, has recorded unrealized appreciation on five portfolio investments, and has recorded unrealized depreciation on seven 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, the Board of Directors has approved Eudaimonia Asset Management, LLC ("Eudaimonia") to serve as investment advisor to MACC under the terms of a new Investment Advisory Agreement (the "New Investment Advisory Agreement"). The New Investment Advisory Agreement is subject to shareholder approval at the next Annual Shareholders' Meeting. Under the New Investment Advisory Agreement, the investment strategy of MACC going forward will be to make new equity investments in small and micro cap companies that are qualified for investment by

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business development companies such as MACC. The Board of Directors has also approved InvestAmerica Investment Advisors, Inc. ("InvestAmerica") to serve as investment sub-advisor under the terms of an Investment Subadvisory Agreement with Eudaimonia and MACC (the "Subadvisory Agreement"). Under the Subadvisory Agreement, which is also subject to shareholder approval at the next Annual Shareholders' Meeting, InvestAmerica will continue to oversee MACC's existing portfolio of investments. MACC will continue to prudently sell existing portfolio company investments and use the resulting proceeds to pay down the note payable, as further described below.

The increase in total investment income during the first quarter of the current fiscal year was due to an increase in dividend income during the period, which MACC does not anticipate will continue in future periods. MACC's interest expense and management fee expense both decreased in the first quarter of the current fiscal year as compared to the prior year first quarter primarily as a result of the repayment of MACC's outstanding SBA Debentures and a decrease in assets under management. For the first quarter of the current fiscal year, the decrease in interest expense and management fee expense exceeded the decrease in total investment income.

The current world tensions and the continuing conflict in Iraq increase the uncertainty of future performance. Many factors such as the sub prime lending practices, interest rate declines, economic downturns and recessionary pressures, inflation and high commodity prices all could have major impacts on the portfolio operating performance and the ability to exit portfolio investments.

### **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.

As of December 31, 2007, MACC's cash and money market accounts totaled \$542,743. MorAmerica Capital has entered into a term loan, which has a current balance of \$6,059,845, and a revolving loan permitting MorAmerica Capital to

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borrow up to \$500,000, with Cedar Rapids Bank & Trust Company. As of December 31, 2007, 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 investment activities in existing portfolio companies, interest payments on the note payable with respect to the term loan referenced above (the "Note Payable") and administrative expenses. At the present time MACC is not making new investments, is prudently selling portfolio companies and is using the resulting proceeds to pay down the Note Payable.

As previously reported, in December, 2007 the SBA accepted the voluntary surrender of MorAmerica Capital's license to operate as a Small Business Investment Company ("SBIC"). Because MorAmerica Capital is no longer an SBIC, the Board of Directors has determined that there is no longer any need to operate MorAmerica Capital as a separate company. Prior to the voluntary surrender of its SBIC license, MorAmerica Capital existed as a wholly owned subsidiary of MACC primarily in order to comply with SBA regulations that prohibited

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MorAmerica Capital from holding certain assets that were held by MACC. Further, in addition to limits respecting MACC's investments imposed by the Investment Company Act of 1940, as amended (the "1940 Act"), MACC and MorAmerica Capital have been subject to an order (the "Order") issued by the Securities and Exchange Commission in 1995, which modifies the application of the 1940 Act to MACC and MorAmerica Capital and imposed certain restrictions on the assets MACC could own as a condition to its grant of exemptive relief under the Securities Exchange Act of 1934 to MorAmerica Capital. Because the reasons MACC originally separated its assets from MorAmerica Capital's are no longer present, and in an effort to operate going forward without the restrictions imposed by the Order, the Board of Directors, at its meeting on January 16, 2008, authorized the merger of MorAmerica Capital with and into MACC, with the merger anticipated to be effective immediately following the 2008 Annual Shareholders' Meeting.

The following table shows MACC's significant contractual obligations for the repayment of the Note Payable and other contractual obligations as of December 31, 2007:

### Payments due by period

Contractual Obligations

		Total	Less than 1 Year	1-3 Years	3-5 Years	More 5 Ye
Note Payable	\$	6,059,845	---	6,059,845	---	
Incentive Fees Payable	\$	29,720	29,720	---	---	

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 existing portfolio companies and other cash requirements during fiscal year 2008. To the extent that additional funds are required to further MACC's investment strategy following the effectiveness of the New Investment Advisory Agreement and Subadvisory Agreement, the Board of Directors examined and approved a proposal to issue rights to acquire shares of MACC's Common Stock as a means by which MACC may raise additional equity capital. The Board of Directors has determined to recommend this proposal to the

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shareholders for their approval at the 2008 Annual Shareholders' Meeting. 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

MACC's primary business is investing in and lending 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 \$15,922,939 at December 31, 2007 and \$16,704,954 at September 30, 2007. During the three months ended December 31, 2007, MACC made no follow-on investments in portfolio companies. As noted above,

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MACC intends to pursue an investment strategy consisting of new equity investments in very small public companies, subject to shareholder approval of the New Investment Advisory Agreement and Subadvisory Agreement at the next Annual Shareholders' Meeting, and may continue to make follow-on investments in existing portfolio companies.

MACC frequently co-invests with other funds managed by MACC's investment advisor. When it makes any co-investment with these related funds, MACC follows certain procedures consistent with orders of the Securities and Exchange Commission 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 MACC's investment advisor 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-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

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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.

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### 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 December 31, 2007, 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 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 changes, the maximum increase or decrease in the interest rate at any one time will 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 changes; however, the maximum increase or decrease in the interest rate at any one time will not exceed 1.000 percentage points.

### Item 4. 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 Commission'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



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

There are no items to report.

## **PART II. OTHER INFORMATION**

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

There are no items to report.

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

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:

- 31.1 Section 302 Certification of David R. Schroder (CEO)
- 31.2 Section 302 Certification of Robert A. Comey (CFO)
- 32.1 Section 1350 Certification of David R. Schroder (CEO)
- 32.2 Section 1350 Certification of Robert A. Comey (CFO)

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**SIGNATURES**

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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: 2/14/08  
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By: /s/David R. Schroder  
-----

David R. Schroder, President

Date: 2/14/08  
-----

By: /s/Robert A. Comey  
-----

Robert A. Comey, Chief Financial Officer

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### EXHIBIT INDEX

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