

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

MACC PRIVATE EQUITIES INC  
Form 10-Q  
May 15, 2007

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 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

(State or other jurisdiction of incorporation  
or organization)

42-1421406

(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)

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(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. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At March 31, 2007, the registrant had issued and outstanding 2,464,621 shares of common stock.

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**Item 1. Financial Statements**

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

March 31,  
2007  
(Unaudited)

**Assets**

Loans and investments in portfolio securities, at market or fair value:

Unaffiliated companies (cost of \$2,796,814 and \$2,920,073)	\$	2,536,444
Affiliated companies (cost of \$13,421,510 and \$13,841,969)		13,205,214
Controlled companies (cost of \$3,099,418 and \$3,159,419)		3,073,481
Cash and cash equivalents		726,432
Interest receivable		144,772
Other assets		1,106,852

Total assets	\$	20,793,195
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**Liabilities and net assets**

Liabilities:

Debentures payable	\$	8,790,000
Incentive fees payable		108,399
Accrued interest		49,984
Accounts payable and other liabilities		231,259

Total liabilities	9,179,642
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Net assets:

Common stock, \$.01 par value per share; authorized 10,000,000 shares; issued and outstanding 2,464,621 shares	24,646
Additional paid-in-capital	12,091,510
Unrealized depreciation on investments	(502,603)

Total net assets	11,613,553
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Total liabilities and net assets	\$	20,793,195
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Net assets per share	4.71
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See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the three months ended March 31, 2007	For the three months ended March 31, 2006	For the six months ended March 31, 2007
	-----	-----	-----
Investment income:			
Interest			
Unaffiliated companies	\$ 13,657	70,434	29,333
Affiliated companies	132,081	130,969	271,020
Controlled companies	29,361	15,090	59,900
Other	26,682	35,120	60,569
Dividends			
Unaffiliated companies	---	---	---
Affiliated companies	11,138	115,459	46,448
	-----	-----	-----
Total investment income	212,919	367,072	467,270
	-----	-----	-----
Operating expenses:			
Interest expenses	206,222	326,848	401,832
Management fees	87,266	113,169	172,960
Incentive fees	---	143,311	---
Professional fees	75,038	81,439	138,252
Other	113,107	89,952	167,970
	-----	-----	-----
Total operating expenses	481,633	754,719	881,014
Investment expense, net before tax expense	(268,714)	(387,647)	(413,744)
Income tax expense	---	(70,000)	---
	-----	-----	-----
Investment expense, net	(268,714)	(457,647)	(413,744)
	-----	-----	-----
Realized and unrealized (loss) gain on investments and other assets:			
Net realized (loss) gain on investments:			
Unaffiliated companies	(95,980)	457,403	(95,980)
Affiliated companies	---	1,987,604	---
Controlled companies	---	31,000	---
Net change in unrealized appreciation/depreciation on investments	55,333	(3,817,372)	479,357
Net change in unrealized gain (loss) on other assets	25,686	1,050	25,686
	-----	-----	-----
Net (loss) gain on investments	(14,961)	(1,340,315)	409,063
	-----	-----	-----
Net change in net assets from			

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operations	\$ (283,675)	(1,797,962)	(4,681)
	=====	=====	=====

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 six months ended March 31, 2007
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Cash flows from operating activities:	
Decrease in net assets from operations	\$ (4,681)
Adjustments to reconcile decrease in net assets from operations to net cash provided by operating activities:	
Net realized and unrealized (gain) loss on investments	(479,357)
Net realized and unrealized gain on other assets	70,294
Proceeds from disposition of and payments on loans and investments in portfolio securities	668,719
Purchases of loans and investments in portfolio securities	(65,000)
Change in interest receivable	213,945
Change in other assets	222,341
Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities	(32,179)
	-----
Net cash provided by operating activities	594,082
Cash flows from financing activities:	
Debt repayment	(2,000,000)
	-----
Net cash used in financing activities	(2,000,000)
	-----
Net (decrease) increase in cash and cash equivalents	(1,405,918)
Cash and cash equivalents at beginning of period	2,132,350
	-----
Cash and cash equivalents at end of period	\$ 726,432
	=====
Supplemental disclosure of cash flow information -	
Cash paid during the period for interest	\$ 369,075
	=====

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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. (Equities) and its wholly owned subsidiary MorAmerica Capital Corporation (MACC) which have been prepared in accordance with U.S. generally accepted accounting principles for investment companies. All material intercompany accounts and transactions have been eliminated in consolidation.

The financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles 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 its Subsidiary as of and for the year ended September 30, 2006. 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, 2006 has been derived from the audited balance sheet as of that date.

##### (2) Critical Accounting Policy

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

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

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

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basis for financial statement purposes.

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### (3) Financial Highlights (Unaudited)

	For the six months ended March 31, 2007	For t months Marc 20
<b>Per Share Operating Performance</b>		
(For a share of capital stock outstanding throughout the period):		
Net asset value, beginning of period	4.71	
Income from investment operations:		
Investment expense, net	(0.17)	
Net realized and unrealized gain (loss) on investment transactions	0.17	
Total from investment operations	0.00	
Net asset value, end of period	\$ 4.71	
Closing market price	\$ 2.08	
	For the six months ended March 31, 2007	For t months Marc 20
Total return		
Net asset value basis	(0.04) %	
Market price basis	16.85 %	
Net asset value, end of period (in thousands)	\$ 11,614	
Ratio to weighted average net assets:		
Investment expense, net	3.57 %	
Operating and income tax expense	7.61 %	

The ratios of investment expense, net to weighted average net assets, of operating expenses and income tax expenses to weighted 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 divided by the beginning of the year average net assets. An individual common stockholders' return may vary from these returns.

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### (4) Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109." This interpretation prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, this interpretation provides guidance on the derecognition, classification, accounting in interim

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periods, and disclosure requirements for uncertain tax positions. The provisions of FIN 48 will be effective at the beginning of the first fiscal year that begins after December 15, 2006. The adoption of FIN 48 is not expected to have a material effect on our financial statements.

In September 2006, the Securities and Exchange Commission published Staff Accounting Bulletin ("SAB") No. 108 (Topic 1N), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 requires registrants to quantify misstatements using both the balance-sheet and income-statement approaches, with adjustment required if either method results in a material error. The provisions of SAB No. 108 are effective as of the beginning of the first fiscal year that ends after November 15, 2006. The adoption of SAB No. 108 is not expected to have a material effect on our financial statements.

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

#### **Manufacturing:**

<b>Company</b>	<b>Security</b>
Aviation Manufacturing Group, LLC (a) Yankton, South Dakota Manufacturer of flight critical parts for aircraft	14% debt security, due October 1, 2008 (c) 154,000 units preferred Membership interest 14% note, due October 1, 2008 Membership interest
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



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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
Handy Industries, LLC (a) Marshalltown, Iowa Manufacturer of lifts for motorcycles, trucks and industrial metal products	12.5% debt security, due January 8, 2007 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, 2007 Membership interest
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)
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
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)...  
 MARCH 31, 2007

### Manufacturing Continued:

Company	Security
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)
Simoniz USA, Inc. Bolton, Connecticut Producer of cleaning and wax products under both the Simoniz brand and private label brand names	12% debt security, due April 1, 2008
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 (c) Warrant to purchase 11,143 common shares (c) 6% debt security, due April 1, 2010 (c) 121,457 common shares (c) 6% debt security, due April 1, 2010 (c) 312,000 common shares (c)
Total manufacturing	

### Service:

FreightPro, Inc Overland Park, Kansas Internet based outsource provider of freight logistics	18% debt security, due February 21, 2007 (c) 18% debt security, due February 15, 2007 (c) Warrant to purchase 366,177.80 common shares (c)
Monitronics International, Inc. Dallas, Texas Provides home security systems monitoring services	73,214 common shares (c)
Morgan Ohare, Inc. (b)	0% debt security, due January 1, 2007 (c)

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Addison, Illinois	10% debt security, due January 1, 2007
Fastener plating and heat treating	57 common shares (c)
	10% debt security, due January 1, 2007
	10% debt security, due January 1, 2007
	10% debt security, due January 1, 2007

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

**Services Continued:**

Company	Security
SMWC Acquisition Co., Inc. (a) Kansas City, Missouri Steel warehouse distribution and processing	13% debt security due May 19, 2007 1,320 shares common (c) Warrant to purchase 2,200 common shares (c) 176,550 shares Series A preferred
Warren Family Funeral Homes, Inc. Topeka, Kansas Provider of value priced funeral services  Total Service	Warrant to purchase 346.5 common shares (c)

**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) 12% debt security, due May 20, 2008 12% debt security, due August 21, 2008 Warrants to purchase 166,500 Series A preferred
MainStream Data, Inc. (a) Salt Lake City, Utah Content delivery solutions provider	322,763 shares Series A preferred (c)
Miles Media Group, Inc. (a) Sarasota, Florida Tourist magazine publisher	1,000 common shares (c) 100 common options (c)

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Phonex Broadband Corporation Midvale, Utah Power line communications	1,855,302 shares Series A preferred (c)
Portrait Displays, Inc. Pleasanton, California Designs and markets pivot enabling software for LCD computer monitors	8% debt security, due April 1, 2009 8% debt security, due April 1, 2012 (c) Warrant to purchase 39,400 common shares (c)
SnapNames.com, Inc. Portland, Oregon Domain name management	511,500 common shares (c)
Total technology and communications	

- (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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### **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, 2006, 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, the effects of recent or future losses on the ability of MorAmerica Capital to comply with applicable regulations of the Small Business Administration 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**

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

### Second Quarter Ended March 31, 2007 Compared to Second Quarter Ended March 31, 2006

	For the three months ended March 31,	
	2007	2006
Total investment income	\$ 212,919	
Net operating and income tax expense	(481,633)	(8,311)
	(268,714)	(4,000)
Investment expense, net	(268,714)	(4,000)
Net realized (loss) gain on investments	(95,980)	2,000
Net change in unrealized appreciation/ depreciation on investments and other assets	55,333	(3,800)
Net change in unrealized loss on other assets	25,686	
	(14,961)	(1,300)
Net loss on investments	(14,961)	(1,300)
Net change in net assets from operations	\$ (283,675)	(1,700)
Net asset value per share:		
Beginning of period	\$ 4.71	\$ 4.71
End of period	\$ 4.71	\$ 4.71

#### Total Investment Income

During the current fiscal year second quarter, total investment income was \$212,919, a decrease of \$154,153, or 42%, from total investment income of \$367,072 for the prior year second quarter. In the current year second quarter as compared to the prior year second quarter, interest income decreased \$49,832, or 20%, and dividend income decreased \$104,321, or 90%. The decrease in interest income is the net result of repayments of principal on debt portfolio securities issued by ten portfolio companies, a decrease in interest income on one debt portfolio security which has been placed on non-accrual of interest status, and an increase in interest income on two debt portfolio securities which had been on non-accrual of interest status during the prior year second quarter but which are currently making interest payments. In the current year second quarter, although MACC received dividends on two existing portfolio investments, as compared to dividend income received in the prior year second quarter from two existing portfolio investments, one of which was a distribution from a limited

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liability company, the prior year dividends were larger.

### Net Operating Expenses

Net operating expenses for the second quarter of the current year were \$481,633, a decrease of \$273,086, or 36%, as compared to net operating expenses for the prior year second quarter of \$754,719. Interest expense decreased \$120,626, or 37%, in the current year second quarter due to the repayment of borrowings from the Small Business Administration ("SBA") of \$6,000,000 in the prior fiscal year and \$2,000,000 in the current year second quarter. Management fees decreased \$25,903, or 23%, in the current year second quarter due to the decrease in capital under management. Incentive fees decreased \$143,311, or 100%, because no incentive fees were earned in the current year second quarter. Professional fees decreased \$6,401, or 8%, in the current year second quarter. Other expenses increased \$23,155, or 26%, in the current year second quarter as compared to the prior year second quarter. The increase in other expenses is the net result of an increase in prepayment penalties incurred on the repayment of the borrowings from the SBA during the current year second quarter, an increase in administrative expenses due to timing of payments, and decreases in directors and officers insurance and director's fees resulting from a reduction in the size of MACC's Board of Directors.

### Investment Expense, Net

For the current year second quarter, MACC recorded investment expense, net of \$268,714, as compared to investment expense, net of \$457,647 during the prior year second quarter, a decrease of \$188,933, or 41%. The decrease in investment expense, net is the result of the decrease in operating expenses described above, partially offset by the decrease in investment income described above.

### Net Realized Gain on Investments

During the current year second quarter, MACC recorded net realized loss on investments of \$95,980, as compared with net realized gain on investments of \$2,476,007 during the prior

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year second quarter. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. 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.

### 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

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investments of \$55,333 during the current year second quarter, as compared to (\$3,817,372) during the prior year second quarter. This net change resulted from:

Unrealized appreciation in the fair value of two portfolio companies totaling \$655,333 during the current year second quarter, as compared to unrealized appreciation in the fair value of one portfolio company totaling \$120,350 during the prior year second quarter.

Unrealized depreciation in the fair value of four portfolio companies of \$600,000 during the current year second quarter, as compared to unrealized depreciation in the fair value of three portfolio companies of \$1,672,528 during the prior year second quarter.

No reversal of unrealized depreciation during the current year second quarter, as compared to reversal of unrealized appreciation of \$2,265,194 in two portfolio companies during the prior year second quarter.

The net change in unrealized gain on other assets of \$25,686 during the current year second quarter was recorded with respect to other securities which are classified as other assets, as compared to a net change in unrealized gain on other assets of \$1,050 during the prior year second quarter.

### Net Change in Net Assets from Operations

MACC experienced a decrease of \$283,675 in net assets at the end of the second quarter of fiscal year 2007, and the resulting net asset value per share was \$4.71 as of March 31, 2007, as compared to \$4.71 as of September 30, 2006 and \$4.83 as of December 31, 2006.

The decrease in net assets recorded during the current year second quarter was primarily the result of the investment expense, net as described above.

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MACC has six portfolio investments valued at cost, has recorded unrealized appreciation on nine portfolio investments, and has recorded unrealized depreciation on nine 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.

Due to its previously reported agreement with the SBA, MACC is not currently making investments in new portfolio companies, however, MACC may periodically make follow-on investments. MACC is prudently selling portfolio companies and is using the resulting proceeds to reduce debt by paying SBA-guaranteed debentures. This strategy impacted MACC's results of operations during the second quarter and six-month period of the current fiscal year in two ways. First, MACC's total investment income decreased in the second quarter and six-month period of the current fiscal year as compared to the prior year periods in part because MACC is not reinvesting the proceeds from portfolio company liquidity events in new portfolio investments. Second, MACC's interest expense and management fee expense both decreased in the second quarter and six-month period of the current fiscal year as compared to the prior year periods primarily as a result of the decreases in MACC's outstanding debentures

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payable and assets under management. For the second quarter of the current fiscal year, the decrease in total investment income exceeded the decrease in interest expense and management fee expense. For the six-month period of the current fiscal year, the decrease in interest expense and management fee expense exceeded the decrease in total investment income.

The economy continues to be strong. However, it is not even in all sectors and it is uncertain whether inflation or recession could affect the performance of portfolio companies. Portfolio companies have had to deal with high energy costs, high raw material costs, and in some cases flat or decreased sales. The growth of China and India and continued competition from imported products from Asia, Central America, and South America have made it more difficult to increase prices as commodity prices rise. The current world tensions and the continuing conflict in Iraq increase the uncertainty of future performance; however, the economy continues to grow and management believes MACC's investment portfolio may benefit from improved operating performance at a number of portfolio companies and from a continuing robust market for corporate acquisitions and investments. The overall activity in the market for corporate acquisitions remains strong.

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### Six Months Ended March 31, 2007 Compared to Six Months Ended March 31, 2006

	For the six months ended March 31,	
	2007	2006
Total investment income	\$ 467,270	
Net operating and income tax expense	(881,014)	(1,000,000)
	(413,744)	(532,730)
Investment expense, net	(413,744)	(532,730)
	(95,980)	(532,730)
Net realized (loss) gain on investments	(95,980)	(532,730)
Net change in unrealized appreciation/ depreciation on investments and other assets	479,357	(4,000,000)
Net change in unrealized loss on other assets	25,686	(4,000,000)
	409,063	(4,000,000)
Net gain (loss) on investments	409,063	(4,000,000)
	\$ (4,681)	(4,000,000)
Net change in net assets from operations	\$ (4,681)	(4,000,000)
Net asset value per share:		
Beginning of period	\$ 4.71	4.71
End of period	\$ 4.71	4.71
Total Investment Income		

During the current fiscal year six-month period, total investment income



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was \$467,270, a decrease of \$231,486, or 33%, from total investment income of \$698,756 for the prior year six-month period. In the current year six-month period as compared to the prior year six-month period, interest income decreased \$136,955, or 25%, and dividend income decreased \$94,531, or 67%. The decrease in interest income is the net result of repayments of principal on debt portfolio securities issued by ten portfolio companies, a decrease in interest income on one debt portfolio security which has been placed on non-accrual of interest status, and an increase in interest income on two debt portfolio securities which had been on non-accrual of interest status during the prior year six-month period but which are currently making interest payments. In the current year six-month period, MACC received dividends on two existing portfolio investments, as compared to dividend income received in the prior year six-month period on four existing portfolio investments, one of which was a distribution from a limited liability company. However, the prior year dividends were larger.

### Net Operating Expenses

Net operating expenses for the six-month period of the current year were \$881,014, a decrease of \$425,428, or 33%, as compared to net operating expenses for the prior year six-month period of \$1,306,442. Interest expense decreased \$244,075, or 38%, in the current year six-month period due to the repayment of borrowings from the Small Business Administration ("SBA") of \$6,000,000 in the prior fiscal year and \$2,000,000 in the current year six-month period. Management fees decreased \$57,648, or 25%, in the current year six-month period due to the decrease in capital under management. Professional fees increased \$14,892, or 12%, in the current year six-month period due in part to the timing of payments of legal expenses. Other

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expenses increased \$4,714, or 3%, in the current year six-month period as compared to the prior year six-month period. The increase in other expenses is the net result of an increase in prepayment penalties incurred on the repayment of the borrowings from the SBA during the current year six-month period, an increase in administrative expenses due to timing of payments, and decreases in directors and officers insurance and director's fees resulting from a reduction in the size of MACC's Board of Directors.

### Investment Expense, Net

For the current year six-month period, MACC recorded investment expense, net of \$413,744, as compared to investment expense, net of \$677,686 during the prior year six-month period, a decrease of \$263,942, or 39%. The decrease in investment expense, net is the result of the decrease in operating expenses described above, partially offset by the decrease in investment income described above.

### Net Realized Gain on Investments

During the current year six-month period, MACC recorded net realized loss on investments of \$95,980, as compared with net realized gain on investments of \$2,689,340 during the prior year six-month period. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. 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

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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.

### 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 \$479,357 during the current year six-month period, as compared to (\$4,833,782) during the prior year six-month period. This net change resulted from:

Unrealized appreciation in the fair value of six portfolio companies totaling \$1,129,357 during the current year six-month period, as compared to unrealized appreciation in the fair value of two portfolio companies totaling \$310,350 during the prior year six-month period.

Unrealized depreciation in the fair value of four portfolio companies of \$650,000 during the current year six-month period, as compared to unrealized depreciation in

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the fair value of eleven portfolio companies of \$3,103,047 during the prior year six-month period.

No reversal of unrealized appreciation during the current year six-month period and reversal of unrealized appreciation of \$2,041,085 in three portfolio companies during the prior year six-month period.

The net change in unrealized gain on other assets of \$25,686 during the current year six-month period was recorded with respect to other securities which are classified as other assets, as compared to a net change in unrealized loss on other assets of \$28,471 during the prior year six-month period.

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

To date, MACC has relied upon several sources to fund its investment activities, including MACC's cash and money market accounts and the Small Business Investment Company ("SBIC") leverage program operated by the SBA.

As an SBIC, MorAmerica Capital is required to comply with the regulations of the SBA (the "SBA Regulations"). These regulations include the capital impairment rules, as defined by Regulation 107.1830 of the SBA Regulations. As of March 31, 2007, the capital of MorAmerica Capital was impaired less than the 55% maximum impairment percentage permitted under SBA Regulations. MorAmerica Capital's impairment percentage was 44% at March 31, 2007. If MorAmerica Capital experiences negative operating results, no assurances can be given that MorAmerica Capital's impairment percentage will continue to be less than the maximum impairment percentage in future periods. If MorAmerica Capital would exceed the maximum impairment percentage in future periods, a number of events could occur which would have a material adverse affect on the financial

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condition, results of operations, cash flow and liquidity of MACC and MorAmerica Capital. MorAmerica Capital is also currently limited by the SBA Regulations in the amount of distributions it may make to MACC.

As of March 31, 2007, MACC's cash and cash equivalents totaled \$726,432. MACC has commitments for an additional \$6,500,000 in SBA-guaranteed debentures, which expire on September 30, 2007. MorAmerica Capital and three other SBICs have entered into an agreement with the SBA in connection with an arbitration settlement. As a result of the terms of this agreement, MACC does not believe that MorAmerica Capital will have access to the SBIC capital program in fiscal year 2007. Subject to the other risks and uncertainties described in this quarterly report, MACC believes that its existing cash and cash equivalents and other anticipated cash flows will provide adequate funds for MACC's anticipated cash requirements during fiscal year 2007, including follow-on portfolio investment activities, if any, interest payments on outstanding debentures payable, payments of principal on outstanding debentures payable, and administrative expenses. In light of the agreement with SBA, at the present time MACC is not making new investments, is prudently selling portfolio companies and is using the resulting proceeds to reduce debt by paying SBA-guaranteed debentures. Once SBA debt is repaid, MACC will evaluate alternatives to maximize shareholder value which may include a

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resumption of new investment funding or seeking shareholder approval to make liquidating distributions.

Debentures payable are composed of \$8,790,000 in principal amount of SBA-guaranteed debentures issued by MACC's subsidiary, MorAmerica Capital, which mature as follows: \$5,835,000 in fiscal year 2011, and \$2,955,000 in fiscal year 2012. MACC anticipates that MorAmerica Capital will not be able to refinance these debentures through the SBIC capital program when they mature. The following table shows MACC's significant contractual obligations for the repayment of debt and other contractual obligations as of March 31, 2007:

### Payments due by period

#### Contractual Obligations

	Total	Less than 1 Year	1-3 Years	3-5 Years
	-----	-----	-----	-----
SBA Debentures	\$ 8,790,000	---	---	5,835,000
Incentive Fees Payable(1)	\$ 108,399	---	---	---

(1) Under the terms of the Subordination Agreement previously disclosed, accrued incentive fees payable to the investment advisor are subordinated to all amounts payable by MorAmerica Capital to the SBA, including outstanding SBA-guaranteed debentures, and any losses the SBA may incur in connection with the settlement of arbitration proceedings occurring in late 2004.

MACC currently anticipates that it will rely primarily on its current cash and cash equivalents and its cash flows from operations to fund its other cash requirements during fiscal year 2007. Although management believes these sources will provide sufficient funds for MACC to meet its anticipated cash

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requirements, there can be no assurances that MACC's cash flows from operations will be as projected, or that MACC's 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 \$18,815,139 at March 31, 2007 and \$18,939,501 at September 30, 2006. During the three months ended March 31, 2007, MACC made no follow-on investments in portfolio companies. As noted above, MACC does not expect to make any investments in new portfolio companies during fiscal year 2007, but may invest in 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 second quarter, no co-investments were made.

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### Critical Accounting Policy

Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the average of the bid price on the three final trading days of the valuation period which is not materially different from the bid price on the final day of the period. 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; 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, MorAmerica Capital uses financial information received monthly, quarterly, and annually from its portfolio companies which includes both audited and unaudited financial statements. This information is used to determine financial condition, performance, and valuation of the portfolio investments.

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

### Determination of Net Asset Value

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

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

MACC is subject to market risk from changes in market interest rates that affect the fair value of MorAmerica Capital's debentures payable determined in accordance with Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value of MorAmerica Capital's outstanding debentures payable at March 31, 2007, was \$8,946,000, with a cost of \$8,790,000. Fair value of MorAmerica Capital's outstanding debentures payable is calculated by discounting cash flows through estimated maturity using a SBA borrowing rate currently available (6.2% at March 31, 2007) for debt of similar original maturity. None of MorAmerica Capital's outstanding debentures payable are publicly traded. Market risk is estimated as the potential increase in fair value resulting from a hypothetical 0.5% decrease in interest rates. Actual results may differ.

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March 31, 2007

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Fair Value of Debentures Payable	\$	8,946,000
Amount Above Cost	\$	156,000
Additional Market Risk	\$	143,000

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### 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

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the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), each of the Certifying Officers executed an Officer's Certification included in this Quarterly Report on Form 10-Q.

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

### 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, 2006.

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#### 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 February 27, 2007, MACC's 2007 Annual Meeting of Shareholders (the "Meeting") was held in Phoenix, Arizona. A quorum of 1,919,847 shares, or approximately 77.90% of issued and outstanding shares as of December 29, 2006, were represented in person or by proxy at the Meeting. The shareholders considered two proposals at the meeting.

With respect to the first proposal, the shareholders elected five nominees to serve as directors until the 2008 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:

	<u>For</u>	<u>Withheld</u>
Michael W. Dunn	1,886,583	33,264
Jasja Kotterman	1,878,320	41,527
Benjamin Jiaravanon	1,851,563	68,284
Gordon J. Roth	1,885,235	34,612
Geoffrey T. Woolley	1,886,152	33,695

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With regard to the second proposal, the shareholders voted to ratify the appointment of KPMG LLP as independent registered public accounting firm for MACC for fiscal year 2007 by a vote of 1,865,821 in favor and 37,040 against approval, with 16,986 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:

- 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)

**SIGNATURES**

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

MACC PRIVATE EQUITIES INC.

Date: 5/10/07  
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By: /s/ David R. Schroder  
-----  
David R. Schroder, President

Date: 5/10/07  
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By: /s/Robert A. Comey  
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Robert A. Comey, Chief Financial Officer

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<u>Exhibit</u>	<u>Description</u>
31.1	Section 302 Certification of David R. Schroder (CEO)
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