

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

MACC PRIVATE EQUITIES INC  
Form 10-Q  
May 15, 2006

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, 2006  
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. 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

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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 May 5, 2006, the registrant had issued and outstanding 2,464,621 shares of common stock.

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**PART I -- FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	March 31, 2006 (Unaudited)
<hr/>	
Assets	
Loans and investments in portfolio securities, at market or fair value:	
Unaffiliated companies (cost of \$4,585,919 and \$5,288,757)	\$ 3,914,325
Affiliated companies (cost of \$16,200,769 and \$17,406,157)	12,245,075
Controlled companies (cost of \$3,348,048 and \$3,247,063)	3,045,125
Cash and money market accounts	5,256,130
Interest receivable	275,241
Other assets	1,342,102
	<hr/>
Total assets	\$ 26,077,998
	<hr/>
Liabilities and net assets	
Liabilities:	
Debentures payable	\$ 14,790,000
Incentive fees payable	238,194
Accrued interest	91,310
Accounts payable and other liabilities	144,118
	<hr/>
Total liabilities	15,263,622
	<hr/>
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	15,719,941
Unrealized depreciation on investments	(4,930,211)
	<hr/>
Total net assets	10,814,376
	<hr/>
Total liabilities and net assets	\$ 26,077,998
	<hr/>
Net assets per share	\$ 4.39
	<hr/>

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, 2006 ----	For the three months ended March 31, 2005 ----
Investment income:		
Interest:		
Unaffiliated companies	\$ 70,434	73,190
Affiliated companies	130,969	349,790
Controlled companies	15,090	86,340
Other	35,120	16,530
Dividends:		
Unaffiliated companies	--	--
Affiliated companies	115,459	72,310
Processing fees	--	--
Other	--	1,790
	-----	-----
Total investment income	367,072	599,970
	-----	-----
Operating expenses:		
Interest expenses	326,848	521,680
Management fees	113,169	239,950
Incentive fees	143,311	--
Professional fees	81,439	145,110
Other	89,952	78,260
	-----	-----
Total operating expenses	754,719	985,010
Management fees waived	--	(52,220)
	-----	-----
Net operating expenses	754,719	932,790
	-----	-----
Investment expense, net before tax expense	(387,647)	(332,810)
Income tax expense	(70,000)	--
	-----	-----
Investment expense, net	(457,647)	(332,810)
	-----	-----
Realized and unrealized (loss) gain on investments and other assets:		
Net realized gain (loss) on investments:		
Unaffiliated companies	457,403	38,320
Affiliated companies	1,987,604	--
Controlled companies	31,000	--
Net change in unrealized depreciation/appreciation on investments	(3,817,372)	514,420
Net change in unrealized loss on other assets	1,050	110,740
	-----	-----
Net (loss) gain on investments	(1,340,315)	663,480
	-----	-----
Net change in net assets from operations	\$ (1,797,962)	330,670

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 mon M
Cash flows from operating activities:	
(Decrease) increase in net assets from operations	\$ (2)
Adjustments to reconcile (decrease) increase in net assets from operations to net cash provided by (used in) operating activities:	
Net realized and unrealized loss (gain) on investments	2
Net realized and unrealized loss (gain) on other assets	
Loss on litigation settlement	
Proceeds from disposition of and payments on loans and investments in portfolio securities	4
Purchases of loans and investments in portfolio securities	
Change in interest receivable	
Change in other assets	1
Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities	
Total adjustments	7
Net cash provided by (used in) operating activities	4
Cash flows from financing activities:	
Proceeds from issuance of note payable-related party	
Debt repayment	(2)
Net cash (used in) provided by financing activities	(2)
Net increase (decrease) in cash and cash equivalents	2
Cash and cash equivalents at beginning of period	2
Cash and cash equivalents at end of period	\$ 5
Supplemental disclosure of cash flow information -	
Cash paid during the period for interest	\$
Supplemental disclosure of noncash investing and financing information -	
Assets received in exchange of securities	\$

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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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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, 2005. 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, 2005 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

	For the six months ended March 31, 2006 ----	For the six months ended March 31, 2005 ----
<b>Per Share Operating Performance</b>		
(For a share of capital stock outstanding throughout the period):		
Net asset value, beginning of period	\$ 5.54 -----	4.61 ----
Income (loss) from investment operations:		
Investment expense, net	(0.27)	(0.28)
Net realized and unrealized (loss) gain on investments	(0.88) -----	0.49 ----
Total from investment operations	(1.15) -----	0.21 ----
Net asset value, end of period	\$ 4.39 =====	4.82 =====
Closing market price	\$ 2.71 =====	2.55 =====
	For the six months ended March 31, 2006 ----	For the six months ended March 31, 2005 ----
Total return		
Net asset value basis	(20.86) %	4.61
Market price basis	(5.45) %	26.09
Net asset value, end of period (in thousands)	\$ 10,814	11,233
Ratio to average net assets:		
Investment (expense) income, net	(4.67) %	(6.35)
Operating expense	10.04 %	18.87

The ratios of investment (expense) income, 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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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)  
 MARCH 31, 2006

Manufacturing:

Company	Security	Percent Net ass
.....		
AAMI, Inc. (a) Wichita, Kansas Manufacturer of industrial and commercial boilers and shower doors, frames and enclosures	12% debt security, due March 31, 2007 (c) Warrant to purchase 11,143 common shares (c) 10% debt security, due March 31, 2007 (c) 121,457 common shares (c) 12% debt security, due March 31, 2007 (c) 312,000 common shares (c)	
Aviation Manufacturing Group, LLC (a) Yankton, South Dakota Manufacturer of flight critical parts for aircraft	14% debt security, due October 1, 2007 (c) 154,000 units preferred Membership interest 19% note, due December 31, 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 (c)	
Detroit Tool Metal Products Co. (a) Lebanon, Missouri Metal stamping	14% debt security, due February 29, 2008 19,853.94 shares Series A preferred (c)	
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	
Industrial Tooling & Fabrication, LLC (a) Fort Madison, Iowa Metal stamping	10% debt security, due November 18, 2009 12% debt security, due November 18, 2009 12% debt security, due November 18, 2009	



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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED) CONTINUED...  
 MARCH 31, 2006

Manufacturing Continued:

Company	Security	Percent Net ass
.....		
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) Warrant to purchase 83,573 preferred shares	
Magnum Systems, Inc. (a) Parsons, Kansas Manufacturer of industrial bagging equipment	12% debt security, due July 31, 2006 48,038 common shares (c) 292,800 shares preferred (c) Warrant to purchase 56,529 common shares (c)	
Metal Tooling Holdings, Inc. (a) Lebanon, Missouri Metal stamping	7,887.17 common shares (c)	
Pratt-Read Corporation (a) Bridgeport, Connecticut Manufacturer of screwdriver shafts and handles and other hand tools	13,889 shares Series A Preferred 7,718 shares Series A preferred 13% debt security, due July 26, 2006 (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	

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED) CONTINUED...  
 MARCH 31, 2006

Manufacturing Continued:

Company	Security	Percent Net ass
.....		
Spectrum Products, LLC (b) Missoula, Montana Manufacturer of equipment for the swimming pool industry	13% debt security, due October 9, 2006 (c) 385,000 units Series A preferred (c) Membership interest (c) Redeemable preferred (c)	
Total manufacturing		101.98 =====

Service:

Concentrix Corporation (a) Pittsford, New York Provides marketing outsourcing solutions including telemarketing, fulfillment and web communications	3,758,750 shares Series A preferred (c) 130,539 shares Series C preferred (c) 328,485 shares Series D preferred (c)	
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)	
JHT Holdings, Inc. Joplin, Missouri Provider of provider of freight logistics truck drive-away, internet based auction and related services to the commercial truck industry	1,238 shares Class A common (c)	
Lee Mathews Equipment, Inc. Kansas City, Missouri Distributor of industrial pump systems	12% debt security, due March 10, 2005 12% debt security, due March 10, 2005	
Monitronics International, Inc. Dallas, Texas Provides home security systems monitoring services	73,214 common shares (c)	

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED) CONTINUED...  
 MARCH 31, 2006

Service Continued:

Company	Security	Percent Net ass
.....		
Morgan Ohare, Inc. (b)	0% debt security, due January 1, 2007 (c)	
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	
	10% debt security, due January 1, 2007	
	10% debt security, due January 1, 2007	
 SMWC Acquisition Co., Inc. (a)	13% debt security due May 19, 2007	
Kansas City, Missouri	1,320 shares common (c)	
Steel warehouse distribution	Warrant to purchase 2,200 common shares (c)	
and processing	176,550 shares Series A preferred	
 Warren Family Funeral Homes, Inc.	Warrant to purchase 346.5 common shares (c)	
Topeka, Kansas		
Provider of value priced funeral		
services		
Total service		42.59%
		=====
 Technology and Communications:		
Feed Management Systems, Inc. (a)	540,551 common shares (c)	
Brooklyn Center, Minnesota	674,309 shares Series A preferred (c)	
Batch feed software and systems	12% debt security, due May 20, 2008	
and B2B internet services	12% debt security, due August 21, 2008	
	Warrants to purchase 166,500 Series A preferred (c)	
 MainStream Data, Inc. (a)	322,763 shares Series A preferred (c)	
Salt Lake City, Utah		
Content delivery solutions provider		
 Miles Media Group, Inc. (a)	1,000 common shares (c)	
Sarasota, Florida	100 common options (c)	
Tourist magazine publisher		

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED) CONTINUED...  
 MARCH 31, 2006

Technology and Communications Continued:

Company	Security	Percent Net ass
.....		
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	465,000 common shares (c) 46,500 common shares (c)	
Total technology and communications		33.02% =====

- (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.

**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*

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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, 2005, 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

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. However, another one of MACC's on-going goals is to reduce net investment expense. MACC is currently seeking to achieve this goal by reducing its operating expenses. MACC also earns interest on short-term investments of cash.

#### Second Quarter Ended March 31, 2006 Compared to Second Quarter Ended March 31, 2005

	For the three months ended March 31,		
	2006	2005	Change
Total investment income	\$ 367,072	599,978	(232,906)
Net operating expense	(824,719)	(932,788)	108,069
Investment expense, net	(457,647)	(332,810)	(124,837)
Net realized gain on investments	2,476,007	38,326	2,437,681
Net change in unrealized depreciation/ appreciation on investments	(3,817,372)	514,421	(4,331,793)
Net change in unrealized gain on other assets	1,050	110,740	(109,690)
Net (loss) gain on investments	(1,340,315)	663,487	(2,003,802)
Net change in net assets from operations	\$(1,797,962)	330,677	(2,128,639)
Net asset value:			
Beginning of period	\$ 5.12	4.68	
End of period	\$ 4.39	4.82	

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### Total Investment Income

During the current fiscal year second quarter, total investment income was \$367,072, a decrease of \$232,906, or 39%, from total investment income of \$599,978 for the prior year second quarter. In the current year second quarter as compared to the prior year second quarter, interest income decreased \$274,257, or 52%, dividend income increased \$43,146, or 60%, and other income decreased \$1,795, or 100%. The decrease in interest income is the net result of repayments of principal on debt portfolio securities issued by eight portfolio companies, a decrease in interest income on three debt portfolio securities which have been placed on non-accrual of interest status, a decrease in interest income on one debt portfolio security of which interest has been forgiven since the end of the prior year fiscal year end, an increase in interest income on one debt portfolio security which made a deferred interest payment in the current year second quarter, and the conversion of accrued interest on one portfolio investment to stock in one portfolio company in the prior year second quarter. In the current year second quarter, MACC received dividends on two existing portfolio investments, one of which was a distribution from a limited liability company, compared to dividend income received in the prior year second quarter from five existing portfolio companies, two of which were distributions from limited liability companies. The dividends in the current year second quarter were larger than in the prior year second quarter.

### Net Operating Expenses

Net operating expenses for the second quarter of the current year were \$754,719, a decrease of \$178,069, or 19%, as compared to net operating expenses for the prior year second quarter of \$932,788. Interest expense decreased \$194,838, or 37%, in the current year second quarter due to the repayment of borrowings from the Small Business Administration ("SBA") of \$9,000,000 in the prior fiscal year and \$2,000,000 in the current year second quarter. Management fees decreased \$126,786, or 53%, in the current year second quarter due to the decrease in capital under management and a decrease in the management fee as a percentage of capital under management from 2.50% to 1.50%, which became effective April 30, 2005. Incentive fees increased \$143,311, or 100%, because no incentive fees were earned in the prior year second quarter. Incentive fees are calculated on an annual basis, but MACC accrues incentive fees expense on a quarterly basis. Accordingly, MACC's financial results for the second six months of the current fiscal year may impact the amount of incentive fee expense accrued during the second quarter of the current year. Professional fees decreased \$63,673, or 44%, in the current year second quarter primarily due to the legal expenses incurred in the prior year second quarter from the arbitration proceedings related to the sale of a former portfolio company which has been settled, legal expenses from a lawsuit related to another former portfolio company which has been settled, and legal expenses incurred in connection with the change of MACC's investment advisor. Other expenses increased \$11,692, or 15%, in the current year second quarter as compared to the prior year second quarter. The increase in other expenses is the net result of increases in insurance and administrative expenses, mainly due to the timing of administrative expenses in the prior year second quarter due to the postponement of the 2005 Annual Shareholders Meeting, offset by a decrease in director's fees resulting from a reduction in the size of MACC's Board of Directors.

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For the current year first quarter, MACC recorded investment expense, net of \$457,647, as compared to investment expense, net of \$332,810 during the prior year second quarter. The increase in investment expense, net is the result of the decrease in investment income described above, partially offset by the decrease in operating expenses described above.

### Net Realized (Loss) Gain on Investments

During the current year second quarter, MACC recorded net realized gain on investments of \$2,476,007, as compared with net realized gain on investments of \$38,326 during the prior year second quarter. In the current year second quarter, MACC realized a gain of \$1,987,604 from the sale of one portfolio company, \$454,470 from the sale of warrant shares in one other portfolio company, and \$33,933 on two previously sold portfolio companies. 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

MACC recorded net change in unrealized appreciation/depreciation on investments of (\$3,817,372) during the current year second quarter, as compared to \$514,421 during the prior year second quarter. This net change in unrealized appreciation/depreciation on investments of (\$3,817,372) is the net effect of an increase in fair value of one portfolio company totaling \$120,350, decreases in fair value of three portfolio companies of \$1,672,528 and the reversal of appreciation of \$1,900,000 in one portfolio investment from the sale of a portfolio company and \$365,194 in one portfolio investment from the sale of warrant shares resulting in realized gains.

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. When the fair value of a portfolio investment increases above its cost, the unrealized appreciation for the portfolio as a whole increases, and when the fair value of a portfolio investment decreases below its cost, unrealized depreciation for the portfolio as a whole increases. When MACC sells an appreciated portfolio investment for a gain, unrealized appreciation for the portfolio as a whole decreases as the gain is realized. Similarly, when MACC sells or writes off a depreciated portfolio investment for a loss, unrealized depreciation for the portfolio as a whole decreases as the loss is realized.

Net change in unrealized gain on other assets of \$1,050 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 \$110,740 during the prior year second quarter.

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### Net Change in Net Assets from Operations

MACC experienced a decrease of \$1,797,962 in net assets at the end of the second quarter of fiscal year 2006, and the resulting net asset value per share was \$4.39 as of March 31, 2006, as compared to \$5.54 as of September 30, 2005.

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MACC has six portfolio investments valued at cost, has recorded unrealized appreciation on seven portfolio investments, and has recorded unrealized depreciation on fourteen portfolio investments. The decrease in net assets recorded during the current year second quarter was primarily the result of decreases in the fair value of three portfolio investments. Valuations from quarter to quarter are affected by a portfolio company's short term performance that changes unrealized depreciation and unrealized appreciation in the quarter. This may or may not be indicative of the long term performance of the portfolio company.

While MACC may periodically make follow-on investments, MACC is not currently making investments in new portfolio companies, and is instead using any excess cash generated from portfolio investment liquidity events to prepay MorAmerica Capital's outstanding SBA-guaranteed debentures when appropriate. MACC recorded significant reductions in its interest expense and management fees in the second quarter of the current fiscal year as a result of these prepayments.

While the economy continues to perform well, it is not even in all sectors. 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. Gas prices, world tensions, terrorism, and the continuing conflict in Iraq increase the uncertainty of future performance. Management believes MACC's investment portfolio may benefit from an anticipated robust market for corporate acquisitions and investments. The overall activity in the market for corporate acquisitions is strong. MACC has exited two investments in 2006 and continues to explore other potential exits.

### Six Months Ended March 31, 2006 Compared to Six Months Ended March 31, 2005

	For the six months ended March 31,		
	2006	2005	Change
Total investment income	\$ 698,756	1,299,428	(600,672)
Net operating expense	(1,376,442)	(1,957,700)	581,258
Investment expense, net	(677,686)	(658,272)	(19,414)
Net realized gain (loss) on investments	2,689,340	(2,446,651)	5,135,991
Net change in unrealized depreciation/ appreciation on investments	(4,833,782)	3,496,197	(8,329,979)
Net change in unrealized gain on other assets	(28,471)	103,649	(132,120)
Net (loss) gain on investments	(2,172,913)	1,153,195	(3,326,108)
Net change in net assets from operations	\$ (2,850,599)	494,923	(3,345,522)
Net asset value:			
Beginning of period	\$ 5.54	4.61	
End of period	\$ 4.39	4.82	



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### Total Investment Income

During the current year six-month period, total investment income was \$698,756, a decrease of \$600,672, or 46%, from total investment income of \$1,299,428 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 \$464,691, or 45%, dividend income decreased \$125,486, or 47%, processing fees decreased \$7,700, or 100%, and other income decreased \$2,795, or 100%. The decrease in interest income is the net result of repayments of principal on debt portfolio securities issued by eight portfolio companies, a decrease in interest income on three debt portfolio securities which have been placed on non-accrual of interest status, a decrease in interest income on one debt portfolio security of which interest has been forgiven since the end of the prior year fiscal year end, an increase in interest income on one debt portfolio security which made a deferred interest payment in the current year six-month period, and the conversion of interest to stock in one portfolio company in the prior year six-month period. In the current year six-month period, MACC received dividends on four existing portfolio investments, one of which was a distribution for a limited liability company, as compared to dividend income received in the prior year six-month period from six existing portfolio companies, three of which were distributions from a limited liability companies. The dividends in the prior year six-month period were also larger than in the current year six-month period. Processing fees decreased due to no fees received in the current year six-month period compared to fees received on one follow-on investment made in the prior year six-month period.

### Net Operating Expenses

Net operating expenses for the six-month period of the current year were \$1,306,442, a decrease of \$651,258, or 33%, as compared to net operating expenses for the prior year six-month period of \$1,957,700. Interest expense decreased \$396,847, or 38%, in the current year six-month period due to the repayment of borrowings from the SBA of \$9,000,000 in the prior fiscal year and \$2,000,000 in the current year six-month period. Management fees decreased \$201,561, or 47%, in the current year six-month period due to the decrease in capital under management and a decrease in the management fee as a percentage of capital under management from 2.50% to 1.50%, which became effective April 30, 2005. Incentive fees increased by \$143,311, or 100%, because no incentive fees were earned in the prior year six-month period. Incentive fees are calculated on an annual basis, but MACC accrues incentive fees expense on a quarterly basis. Accordingly, MACC's financial results for the second six months of the current fiscal year may impact the amount of incentive fee expense accrued during the six-month period of the current year. Professional fees decreased \$198,535, or 62%, in the current year six-month period primarily due to the legal expenses incurred in the prior year six-month period from the arbitration proceedings related to the sale of a former portfolio company which has been settled, legal expenses from a lawsuit related to another portfolio company which has been settled, and legal expenses incurred in the change of MACC's investment advisor. Other expenses increased \$2,374, or 1%, 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 increases in insurance and administrative expenses, mainly due to the timing of expenses in the prior year six-month period due to the postponement of the 2005 Annual Shareholders Meeting, offset by decreases in director's fees and board travel expense resulting from a reduction in the size of MACC's Board of Directors.

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### Investment Expense, Net

For the current year six-month period, MACC recorded investment expense, net of \$677,686, as compared to investment expense, net of \$658,272 during the prior year six-month period. The increase in investment expense, net is the result of the decrease in investment income, partially offset by the decrease in operating expenses described above.

### Net Realized (Loss) Gain on Investments

During the current year six-month period, MACC recorded net realized gain on investments of \$2,689,340, as compared with net realized loss on investments of \$2,446,651 during the prior year six-month period. In the current year six-month period, MACC realized gains of \$1,987,604 from the sale of one portfolio company, \$667,803 from the sale of warrant shares in two other portfolio companies, and \$33,933 on two previously sold portfolio companies. 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

MACC recorded net change in unrealized appreciation/depreciation on investments of (\$4,833,782) during the current year six-month period, as compared to \$3,496,197 during the prior year six-month period. This net change in unrealized appreciation/depreciation on investments of (\$4,833,782) is the net effect of an increase in fair value of two portfolio companies totaling \$310,350, decreases in fair value of eleven portfolio companies of \$3,103,047, the reversal of appreciation of \$1,508,206 in one portfolio investment from the sale of a portfolio company and \$532,879 in two portfolio investments from the sale of warrant shares resulting in realized gains.

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. When the fair value of a portfolio investment increases above its cost, the unrealized appreciation for the portfolio as a whole increases, and when the fair value of a portfolio investment decreases below its cost, unrealized depreciation for the portfolio as a whole increases. When MACC sells an appreciated portfolio investment for a gain, unrealized appreciation for the portfolio as a whole decreases as the gain is realized. Similarly, when MACC sells or writes off a depreciated portfolio investment for a loss, unrealized depreciation for the portfolio as a whole decreases as the loss is realized.

Net change in unrealized loss on other assets of \$28,471 during the current year six-month period was recorded with respect to other securities which are classified as other assets, as compared to a net change in unrealized gain on other assets of \$103,649 during the prior year six-month period.

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### Financial Condition, Liquidity and Capital Resources

To date, MACC has relied upon several sources to fund its investment

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activities, including MACC's cash and money market accounts and the Small Business Investment Company ("SBIC") leverage program operated by the Small Business Administration (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, 2006, the capital of MorAmerica Capital was impaired less than the 55% maximum impairment percentage permitted under SBA Regulations. MorAmerica Capital's impairment percentage was 51% at March 31, 2006. If MorAmerica Capital continues to experience negative operating results, no assurances can be given that MorAmerica capital 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 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, 2006, MACC's cash and cash equivalents totaled \$5,256,130. MACC has a commitment for an additional \$6,500,000 in SBA-guaranteed debentures, which expires 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 2006. 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 prepaying SBA-guaranteed debentures when appropriate. Subject to the other risks and uncertainties described in this quarterly report, MACC believes that its existing cash and money market accounts and other anticipated cash flows will provide adequate funds for MACC's anticipated cash requirements during fiscal year 2006, including follow-on portfolio investment activities, interest payments on outstanding debentures payable, prepayments of principal on outstanding debentures payable, and administrative expenses.

Debentures payable are composed of \$14,790,000 in principal amount of SBA-guaranteed debentures issued by MACC's subsidiary, MorAmerica Capital, which mature as follows: \$1,500,000 in fiscal year 2010, \$5,835,000 in fiscal year 2011, and \$7,455,000 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, 2006:

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Contractual Obligations	Payments due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	-----	-----	-----	-----	-----
SBA Debentures	\$14,790,000	--	--	1,500,000	13,290,000
Incentive Fees Payable(1)\$	238,194	--	--	--	238,194

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(1) 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 cash requirements during fiscal year 2006. Although management believes these sources will provide sufficient funds for MACC to meet its fiscal year 2006 investment level objective and other anticipated cash 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 \$19,204,525 at March 31, 2006 and \$25,845,548 at September 30, 2005. During the three months ended March 31, 2006, 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 2006, but may invest up to \$500,000 in follow-on investments in existing portfolio companies, subject to further adjustment based on current economic and operating conditions.

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.

### **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 MACC's 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

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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

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used to determine financial condition, performance, and valuation of the portfolio investments.

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

### Determination of Net Asset Value

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

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

MACC is subject to market risk from changes in market 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, 2006, was \$15,314,000, with a cost of \$14,790,000. 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 (6.3% at March 31, 2006) 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, 2006	
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Fair Value of Debentures Payable	\$15,314,000
Amount Above Cost	\$ 524,000
Additional Market Risk	\$ 323,000
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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,

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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 any significant changes in MACC's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings.

There are no items to report.

#### Item 1A. Risk Factors.

There are no changes to report from the risk factors disclosed in MACC's Annual Report on Form 10-K for the year ended September 30, 2005.

#### 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 28, 2006, MACC's 2006 Annual Meeting of Shareholders (the "Meeting") was held in Dallas, Texas. A quorum of 1,911,638 shares, or approximately 77.56% of issued and outstanding shares as of December 31, 2005, 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 2007 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
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Michael W. Dunn	1,887,190	24,448
Jasja Kotterman	1,883,707	27,931
Benjamin Jiaravanon	1,864,488	47,150
Gordon J. Roth	1,887,592	24,046
Geoffrey T. Woolley	1,887,353	24,285

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 2006 by a vote of 1,889,746 in favor and 6,080 against approval, with 15,812 shares abstaining.

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**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)

**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: 5/11/06 By: /s/David R. Schroder  
 -----  
 David R. Schroder, President

Date: 5/11/06 By: /s/Robert A. Comey  
 -----  
 Robert A. Comey, Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description	Page
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