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MACC PRIVATE EQUITIES INC

Form 10-K

December 19, 2008

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

Form 10-K

(Mark one)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended September 30, 2008

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

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

Commission file number 0-24412

MACC PRIVATE EQUITIES INC.

(Exact name of registrant as specified in its charter)

Delaware

42-1421406

(State or other jurisdiction of incorporation or organization)

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

580 Second Street; Suite 102, Encinitas, California

92024

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number (760) 479-5080

Securities registered under Section 12(b) of the Exchange Act:  
None.

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.01 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

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 (the Exchange Act) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See

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the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting Company

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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of November 30, 2008, based upon the closing sale price reported by the Nasdaq Capital Market on that date of \$0.83: \$ 1,844,693

Number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of November 30, 2008: 2,464,621

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### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the year ended September 30, 2008 are incorporated by reference into Part II of this Report on Form 10-K.

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K of MACC Private Equities Inc. ("MACC" or "we" or "us" or the "Company") contains forward-looking statements. All statements in this Annual Report on Form 10-K, including those made by MACC's management, other than statements of historical fact, are forward-looking statements. These forward-looking statements are based on current management expectations that involve substantial risks and uncertainties that could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "targets," "potential," and "continue," or the negative of these terms, or other similar words. Examples of forward-looking statements contained in this Annual Report on Form 10-K include statements regarding MACC's:

- future financial and operating results;
- business strategies, prospects and prospects of its portfolio companies;
- ability to operate as a business development company;
- regulatory structure;
- adequacy of cash resources and working capital;
- projected costs;
- competitive positions;
- management's plans and objectives for future operations; and
- industry trends.

These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed below and in the section titled "Risk Factors." Other risks and uncertainties are disclosed in MACC's prior Securities and Exchange Commission ("SEC") filings. These and many other factors could affect MACC's

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future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by MACC or on its behalf. MACC undertakes no obligation to revise or update any forward-looking statements. The forward-looking statements contained in this Form 10-K are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The following information should be read in conjunction with the financial statements and the accompanying notes to financial statements included in this Annual Report. All references to fiscal year apply to MACC's respective fiscal years which end on September 30 of each year.

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Certain information required to be included in this Form 10-K is incorporated by reference to information contained in MACC's Annual Report to Shareholders for its fiscal year ending September 30, 2008 filed as an exhibit to this report on Form 10-K (the "2008 Annual Report"). The following cross-reference index shows the page locations in the 2008 Annual Report of that information which is incorporated by reference into this Form 10-K. All other sections of the 2008 Annual Report are not required to be included in this Form 10-K and therefore should not be considered a part hereof.

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## Part I

### Item 1. Business.

#### General

MACC Private Equities Inc. was formed as a Delaware corporation on March 3, 1994. It has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). MACC has no employees, and all of its day to day operations are carried out by its officers and the staff of its investment adviser, Eudaimonia Asset Management, LLC ("EAM" or the "Adviser") with the assistance of its subadviser, InvestAmerica Investment Advisors, Inc. ("InvestAmerica" or the "Subadviser"). EAM was engaged by MACC in April 2008 to manage assets which are raised after that date (the "New Portfolio"), and InvestAmerica was engaged by MACC and EAM to assist EAM in continuing to manage the assets which MACC held prior to April 2008 (the "Existing Portfolio"). Prior to April, 2008, InvestAmerica served as investment adviser to MACC and MACC's wholly-owned subsidiary, MorAmerica Capital Corporation ("MorAmerica"). Upon approval by MACC's shareholders at the 2008 Annual Meeting, MorAmerica was merged into MACC.

#### MACC's Operation as a BDC

Under the 1940 Act, a BDC may not acquire any asset other than "Qualifying Assets" as defined under Section 55(a) of the 1940 Act, unless, at the time the acquisition is made, Qualifying Assets represent at least 70% of the value of the BDC's total assets. The principal categories of Qualifying Assets relevant to MACC's business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer is an eligible portfolio company. An eligible portfolio company is defined in the 1940 Act as any issuer that:
  - (a) is organized under the laws of, and has its principal place of business in, the United States;
  - (b) is not an investment company; and
  - (c) satisfies one of the following:
    - (i) it does not have any class of securities with respect to which a member of a national securities exchange, broker or dealer may extend or maintain credit;
    - (ii) it is controlled by a BDC, either alone or as part of a group acting together, and such BDC exercises control over the company and as a result of such control has an affiliated person who is a director of such BDC;
    - (iii) it has total assets of not more than \$4,000,000, and capital and surplus (shareholders' equity less retained earnings) of not less than \$2,000,000;
    - (iv) it has a class of securities listed on a national securities exchange, with an aggregate market value of outstanding voting and non-voting equity of less than \$250 million; or
    - (v) such other criteria prescribed by the SEC established as consistent with public interest, the protection of investors, and the purposes fairly intended by the policy and provisions of the 1940 Act.
- (2) Cash, cash items, government securities, or high quality debt securities maturing in one year or less from the time of investment.
- (3) Securities received in exchange for or distributed on or with respect to securities described in (1) above, or pursuant to the exercise of options, warrants or rights relating to such securities.

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In addition, a BDC must have been organized (and have its principal place of business) in the United States for the purpose of making investments in the types of securities described in (1) above and, in order to count the securities as Qualifying Assets for the purpose of the 70% test, the BDC must make available to the issuers of the securities significant managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees offers to provide, and, if

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accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

Under the 1940 Act, once a company has elected to be regulated as a BDC, it may not change the nature of its business so as to cease to be, or withdraw its election as, a BDC unless authorized by vote of a majority, as defined in the 1940 Act, of the company's shares.

### **Investments and Divestitures**

During the fiscal year 2008, MACC sold portfolio investments and collected on installment sales resulting in a net realized gain of \$687,269. MACC made one follow-on investment of an Existing Portfolio company of \$52,000 in order to protect its interests in that position.

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

AN INVESTMENT IN MACC'S COMMON STOCK IS SUBJECT TO A NUMBER OF RISKS AND SPECIAL CONSIDERATIONS, INCLUDING THE FOLLOWING. THE RISKS SET OUT BELOW ARE THE PRINCIPAL RISK FACTORS ASSOCIATED WITH AN INVESTMENT IN MACC, AS WELL AS THOSE FACTORS GENERALLY ASSOCIATED WITH AN INVESTMENT IN A COMPANY WITH INVESTMENT OBJECTIVES, INVESTMENT POLICIES, CAPITAL STRUCTURE OR TRADING MARKETS SIMILAR TO MACC'S.

#### **RISKS RELATED TO OUR INVESTMENTS**

**Our investments may be risky, and you could lose all or part of your investment.**

MACC is designed for long-term investors. Investors should not rely on MACC for their short-term financial needs. The value of the higher risk securities in which MACC invests will be affected by general economic conditions; the securities market; the markets for public offerings and corporate acquisitions; specific industry conditions; and the management of the individual portfolio companies. Additionally, MACC may not achieve its investment objectives.

**An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies, a dependence upon the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.**

As a BDC, MACC invests a large portion of its assets in restricted securities issued by small, private companies, some of which have operated at losses or have experienced substantial fluctuations in operating results. There is generally little or no publicly available information about such companies and MACC must rely on the diligence of its Adviser and Subadviser to obtain the information necessary for its decision to invest in these companies. In order to

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maintain its status as a BDC, MACC must have at least 70% of its total assets invested in Qualified Assets. Typically, such companies depend for their success on the management talents and efforts of one person or a small group of persons, so that the death, disability or resignation of such person or persons could have a materially adverse impact on them. Moreover, smaller companies frequently have narrower product lines and smaller market shares than larger companies and, therefore, may be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities, and a larger number of qualified managerial and technical personnel. Because these companies will generally have highly leveraged capital structures, reduced cash flow resulting from an adverse business development, shifts in customer preferences, or an economic downturn or the inability to complete a public offering or other financing may adversely affect the return on, or the recovery of, MACC's investment in them. Investment in such companies therefore involves a high degree of business and financial risk, which can result in substantial losses and, accordingly, should be considered highly speculative. No assurance can be given that some of MACC's investments will not result in substantial or complete losses.

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**Because our investments are and will continue to typically be privately-issued, they typically will have limited liquidity, and thus their value is decreased.**

All of our Existing Portfolio investments consist of, and most of our New Portfolio investments will consist of, securities acquired directly from their issuers in private transactions. They are usually subject to restrictions on resale and are generally illiquid. Usually there is no established trading market for such securities into which they could be sold. In addition, most of the securities are not eligible for sale to the public without registration under the 1933 Act, which would involve delay and expense. Restricted securities generally sell at a price lower than similar securities that are not subject to restrictions on sale.

**There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.**

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken if we actually render significant managerial assistance.

**We will be exposed to risks associated with changes in interest rates.**

Generally, when market interest rates rise, the values of debt securities decline, and vice versa. During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing us to reinvest in lower yielding securities. This is known as call or prepayment risk. Lower grade securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem a lower grade obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the

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credit standing of the issuer.

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

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

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

As a result of our election to be regulated as a BDC, we must not acquire any assets other than Qualifying Assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are Qualifying Assets. Qualifying Assets include "eligible portfolio companies." "Eligible portfolio companies" are generally companies which are organized in the United States, are not investment companies, and which either: (i) do not have securities for which a broker may extend margin credit, (ii) are controlled by a BDC or a group including a BDC, (iii) are solvent and have assets under \$4 million and capital and surplus of at least \$2 million, or (iv) (A) do not have a class of securities listed on a national securities exchange, or (B) do have a class of securities listed on a national securities exchange, but have a market capitalization below \$250,000,000.

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

**Our use of leverage may create conflicts of interest and we will be exposed to the risks associated with leverage.**

In addition to our outstanding loans discussed below, we may borrow additional money to increase our ability to make investments, though we do not anticipate issuing preferred stock in the next twelve months. Lenders from whom

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we may borrow money or holders of our debt (or preferred, if issued) securities will have fixed dollar claims on our assets that are superior to the claims of our stockholders, and we may grant a security interest in our assets in connection with our debt. Current and potential lenders will not, however, hold any veto or other power to change any of our policies. In the case of a liquidation event, those lenders or note holders (in addition to holders of preferred stock if we issued such stock) would receive proceeds before our stockholders. If we incur additional debt, the costs associated with such leverage, including commitment fees and interest (in the case of debt) or issuance and dividend costs (in the case of preferred stock), would be borne entirely by holders of our Common Stock.

Debt, also known as leverage, magnifies the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in our securities. The increased potential of gain through the use of leverage also creates a conflict of interest in that it can encourage our Adviser to increase our assets through leverage in an effort to earn Management or Incentive Fees under the Investment Advisory Agreement between MACC and the Adviser, effective April 29, 2008 (the "Advisory Agreement"), while our common stockholders would incur the costs of utilizing such leverage and bear the risks associated with the debt. Even though the Company, and therefore its common stockholders, would bear the risks and expenses of leverage, the incentive fees payable to the Adviser will not be directly reduced by any interest expense associated with such leverage.

Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. If an asset purchased with leverage declines in value, the fact that we incurred leverage to finance the purchase of such asset will compound the decrease in our net assets attributable to our common stock and could eliminate our equity in such investment. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common stock. Our ability to service any debt that we incur will depend largely on our financial performance and the performance of our portfolio companies and will be subject to prevailing economic conditions and competitive pressures.

MACC had an outstanding principal amount of \$4,750,405 under its term loan (the "Term Loan") with Cedar Rapids Bank & Trust ("CRB & T"), on September 30, 2008. The Term Loan has a stated maturity date of August 29, 2009 and is subject to a variable interest rate based on an independent index. The current interest rate applicable to the Term loan is 6.0%.

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**We have lost money in four of the past five years, which impacts our ability to operate.**

Due to a number of factors, MACC's assets have declined in the last several years, along with its share price. These results negatively impact our ability to raise capital as part of our strategy to increase assets in an effort to decrease our per-share expenses. They also hinder our ability to undertake leverage to increase assets and potential returns. Furthermore, our past



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performance has limited our liquidity and has caused our financial condition to deteriorate. There can be no assurance that our future performance will improve.

### **Our quarterly results may fluctuate.**

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rates payable on the debt investments or the dividend rates on the equity investments we make, the default rates on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses and the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

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

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

### **Most of our Existing Portfolio investments will be recorded at fair value as determined in good faith by our Board. As a result, there is and will continue to be uncertainty as to the value of our portfolio investments.**

Pursuant to the requirements of the 1940 Act, substantially all of our Existing Portfolio investments will be recorded at fair value as determined in good faith by our Board on a quarterly basis, and, as a result, there is uncertainty regarding the value of our portfolio investments. At September 30, 2008, approximately 95% of our total assets represented investments recorded at fair value. Since there will typically be no readily ascertainable market value for the investments in our Existing Portfolio, our Board will determine in good faith the fair value of our investments pursuant to our valuation policy and a consistently applied valuation process.

There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we intend to make. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses; we are instead required by the 1940 Act to specifically value each individual investment and record unrealized depreciation for an investment that we believe has lost value, including where collection of a debt security or realization of an equity security is doubtful. Conversely, we will record unrealized appreciation if we have an indication that the underlying portfolio company has appreciated in value and, therefore, our security has also appreciated in value, where appropriate. Without a readily ascertainable market value and because of the inherent uncertainty of valuation, fair value of our Existing Portfolio investments determined in good faith by the Board may differ significantly from the values that would have been used by another party or had a ready market existed for the Existing Portfolio investments, and the differences could be material.

We adjust quarterly the valuation of our portfolio to reflect the Board's determination of the fair value of each Existing Portfolio investment. Any changes in fair value are recorded in our statement of operations as "Net change in unrealized depreciation/appreciation on investments."

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**When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control that portfolio company.**

When we make minority equity investments or invest in debt, we will be subject to the risk that a portfolio company may make business decisions with which we may disagree, and that the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investments.

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

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

**Changes in laws or regulations or in the interpretations of laws or regulations could significantly affect our operations and cost of doing business.**

We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, we may have to incur significant expenses in order to comply, or we may have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, or fail to obtain licenses that may become necessary for the conduct of our business, we may be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

#### **RISKS RELATED TO OUR BUSINESS**

**We operate in a highly competitive market for investment opportunities.**

We compete with public and private funds, commercial and investment banks and commercial financing companies to make the types of investments that we make. Many of our competitors are substantially larger and have considerably

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greater financial, technical and marketing resources than us. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, allowing them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a result of our election to be regulated as a BDC.

### **Closed-end investment companies' shares usually trade below net asset value.**

Shares of closed-end investment companies like MACC frequently trade at a discount from net asset value and MACC's shares have historically traded at a discount from net asset value. At September 30, 2008, MACC's shares traded at a 67% discount to their net asset value. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our per share net asset value will decline. In addition, due to the following

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reasons, MACC is not only different from other closed-end funds, is a greater risk than similar venture capital closed-end funds.

First, many closed-end funds generally are structured to produce annual dividends to shareholders. MACC, however, does not presently pay dividends but, rather, retains all income after taxes and expenses to reduce debt or fund additional investments and thus create capital appreciation. The return to holders of MACC's common stock is thus anticipated to be long-term and capital in nature. MACC's Board of Directors (the "Board") will, however, consider payment of dividends in the future and reserves the right to do so without shareholder approval.

Second, due to several factors, including the small size of MACC relative to fixed expenses, and the fact that much of the income of MACC arises through capital gains rather than ordinary income, MACC has lost money (that is, had net investment expense, rather than new investment income) in each of the last six years. Many similar funds are structured to earn sufficient current income to achieve operating income (investment income in excess of operating expenses) each year.

### **We may not be able to elect pass-through tax treatment in the future as planned.**

Currently, MACC is a taxable entity (a "C corporation") in order to utilize net operating loss carryforwards generated from a predecessor company as well as its operating losses. In the future, MACC may elect to qualify for pass-through tax treatment contained in Subchapter M of the Internal Revenue Code of 1986, as amended ("Code"). Subchapter M treatment essentially means that certain income is taxed at the shareholder level only with no tax at the corporate level, although MACC may be subject to a corporate level tax on certain built-in gains in existence at the time MACC would first become subject to Subchapter M. It is possible that, for a number of reasons, MACC may be unable to meet Subchapter M requirements, or that it may also cease to qualify for pass-through treatment, or be subject to a four percent excise tax, if it fails to make certain distributions. Under the 1940 Act, MACC is not permitted to make distributions to shareholders unless it meets certain asset coverage requirements with respect to money borrowed and senior securities issued. Non-availability of pass-through tax treatment may potentially have a materially adverse effect on the total return, if any, obtainable from an investment in MACC's shares, once net operating loss carryforwards are no longer available and the Subchapter M election has become advantageous.

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**We are dependent upon our Adviser's and Subadviser's key personnel for our future success.**

We depend on the diligence, expertise and business relationships of our Adviser and Subadviser. The Adviser and Subadviser will evaluate, negotiate, structure, close and monitor our investments, subject to supervision by the Board. Our advisory agreements with EAM and InvestAmerica are short-term in nature and subject to cancellation on sixty days' notice. Our future success will depend on the continued service of certain key individuals of the Adviser and Subadviser. The departure of one or more of these key individuals could have a material adverse effect on our ability to achieve our investment objectives and on the value of our common stock. We will rely on certain employees of the Adviser and Subadviser, who may devote significant amounts of their time to their respective activities that are not related to MACC. To the extent those employees of the Adviser and Subadviser who are not committed exclusively to us are unable to, or do not, devote sufficient amounts of their time and energy to our affairs, our performance may suffer.

**Potential significant conflicts of interest may impact our investment returns.**

All of our officers also serve in similar capacities with EAM, which serves as an investment adviser to other accounts, and in the future may serve as investment adviser to other investment funds. In that case, our officers may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of MACC or its stockholders or that may require them to devote time to services for such other entities, which could interfere with the time available to provide services to MACC. Nonetheless, EAM is of the opinion that any such efforts of its officers relative to MACC would be synergistic with and beneficial to the affairs of both MACC and EAM. InvestAmerica and its affiliates also serve as investment advisers to other funds. It is possible that, through the course of identifying and structuring potential investments, EAM may be presented with investment opportunities which could benefit certain investors in the portfolio company to the detriment of our stockholders. For example, if

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we overvalue a portfolio company investment, our investment could benefit a portfolio company investor by providing capital to the company, and thus its investors, at below market rates.

While EAM intends to allocate investment opportunities in a fair and equitable manner (i.e., pro-rata among its accounts) consistent with our investment objective and strategies, and in accordance with its written allocation procedures so that we will not be disadvantaged in relation to any other client, EAM's services under the Advisory Agreement are not exclusive. Both EAM and InvestAmerica are free to furnish the same or similar services to other entities, including businesses that may directly or indirectly compete with us, provided they notify us prior to agreeing to serve as investment adviser to another entity. In addition, the private accounts managed by EAM and InvestAmerica may make investments similar to investments that we may pursue. Accordingly, EAM and/or InvestAmerica may have obligations to other accounts, the fulfillment of which might not be in the best interests of us or our stockholders.

As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which the Adviser, the Subadviser or any of their respective affiliates currently has an investment. However, under the terms of

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an exemptive order granted by the SEC, under certain specified circumstances, we may invest (and make follow on investments) in portfolio companies at the same time and on the same terms as InvestAmerica's affiliates. All such investments are reviewed by our independent directors to assure conformity to the exemptive order.

In the course of our investing activities, we pay management and incentive fees to EAM and InvestAmerica. As a result, holders of our common stock invest on a "gross" basis and receive distributions on a "net" basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through direct investments in our portfolio companies. Because of this arrangement, there may be times when the management teams of either EAM or InvestAmerica have interests which differ from those of our stockholders, giving rise to a conflict. For example, if we borrow money or issue debt instruments and thereby increase our assets, which in turn increases the management fee payable to our Adviser, we simultaneously increase our expenses to service such debt and thereby reduce our stockholders' return on their investment in MACC. Further, the use of leverage increases the likelihood of gain (or loss) which amounts would be subject to the incentive fee we pay to our Adviser.

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

Our Adviser has no experience serving as an investment adviser to a BDC. While our Adviser intends to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies, and in accordance with its written allocation procedures so that we will not be disadvantaged in relation to any other client, our Adviser's services under the Advisory Agreement are not exclusive. EAM is free to furnish the same or similar services to other entities, including businesses that may directly or indirectly compete with us, so long as our Adviser notifies us prior to being engaged to serve as investment adviser to another fund and further provided that any such investment management services and any co-investments shall at all times be provided in strict accordance with rules and regulations under the 1940 Act, our Adviser's asset allocation policy required thereunder and any exemptive order applicable to MACC. In addition, the private accounts managed by our Adviser may make investments similar to investments that we may pursue. Accordingly, our Adviser may have obligations to other investors, the fulfillment of which might not be in the best interests of us or our stockholders, and it is possible that our Adviser might allocate investment opportunities to other client, and thus might divert attractive investment opportunities away from us.

**The incentive fee payable to our Adviser may create conflicting incentives.**

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

Under the Advisory Agreement with EAM, the incentive fee is calculated on a "period to period" basis, meaning that changes in the value of portfolio investments in subsequent periods do not retroactively affect

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incentive fee calculations from prior periods. Further, the Advisory Agreement empowers EAM with the discretion to determine when MACC should dispose of portfolio investments. This formula and authority granted EAM presents a conflict of interest in that it could prompt EAM to concentrate realized gains or losses in one performance measuring period in an effort to maximize that period's gain (or another period's loss), and therefore maximize the incentive fee payment for such period, when MACC would be able to achieve greater gains if they were realized in different periods. In addition to duties imposed on EAM by the 1940 Act and other laws, under the terms of the Advisory Agreement, the Board of Directors has the responsibility to monitor the value of MACC's portfolio consistent with MACC's Valuation Procedures. These responsibilities include the appropriateness of and the timing of recognizing unrealized depreciation, reversals of unrealized depreciation, and capital losses and gains, which serves to mitigate the inherent conflict associated with the Adviser's interest in enhancing the amount of net capital gains with respect to the calculation of the incentive fee.

**If we issue senior securities, including debt, we will be exposed to additional risks, including the typical risks associated with leverage.**

MACC may borrow funds from and issue senior debt securities to banks, insurance companies or other lenders up to the limit permitted by the 1940 Act. Currently, MACC has borrowed funds from CRB &T consisting of the Term Loan and a revolving loan to borrow up to \$500,000. Such borrowings cause MACC to be leveraged. When such borrowings are incurred, the lenders of these funds will have fixed dollar claims on our assets superior to the claims of our shareholders. Decreases in the value of the investments below their value at the time of acquisition would cause our net asset value to decline more sharply than it would if the funds had not been borrowed. Any decrease in the rate of income would cause net income to decline more sharply than it would had the funds not been borrowed and invested. Leverage is thus generally considered a speculative investment technique. Conversely, however, the ability of MACC to achieve its investment objectives may depend in part on its ability to acquire leverage on favorable terms by borrowing through banks or insurance companies, and there can be no assurance that such leverage can in fact be acquired.

MACC has not made any drawings under the revolving loan with CRB &T, but may do so during fiscal year 2009 for working capital purposes, including making follow-on investments in its portfolio companies, as further described below.

**When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control that portfolio company.**

When we make minority equity investments or invest in debt, we will be subject to the risk that a portfolio company may make business decisions with which we may disagree, and that the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investments.

**To protect or maintain our portfolio investments, we may need to increase our investments in portfolio companies.**

Following our initial investment, we may make additional debt and equity investments in portfolio companies ("follow-on investments") in order to increase our investment in a successful portfolio company, to exercise securities that were acquired in the original financing, to preserve our proportionate ownership when a subsequent financing is planned or to protect our initial investment when such portfolio company's performance does not meet expectations.

**We may not have the funds to make additional investments in our portfolio companies.**

There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Additionally, we are subject to limitations relating to our BDC status which may limit our ability to make additional investments in portfolio companies. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation, or may reduce the expected yield on the investment.

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**Changes in the law or regulations that govern us could have a material impact on us or our operations.**

We are regulated by the SEC. In addition, changes in the laws or regulations that govern BDCs and registered investment companies may significantly affect our business. Any change in the law or regulations that govern our business could have a material impact on us or our operations. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations also are subject to change, which may have a material effect on our operations.

**Results may fluctuate and may not be indicative of future performance.**

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the investment origination volume and fee income earned, variation in timing of prepayments, variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions.

**Our common stock price may be volatile.**

The trading price of our common stock may fluctuate substantially. The price of the common stock may be higher or lower than the price you pay for your shares, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of BDCs or other financial services companies;
- changes in laws or regulatory policies or tax guidelines with respect to BDCs or regulated investment companies;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- risks associated with possible disruption in our operations due to terrorism;
- general economic conditions and trends;
- loss of a major funding source;
- departures of key personnel; or

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other risks and uncertainties as may be detailed from time to time in our public announcements and SEC filings.

### **Risks Related to the Existing Portfolio**

**An investment strategy that includes privately-held companies presents certain challenges, including the lack of available information about these companies, a dependence upon the talents and efforts of only a few key portfolio company personnel, a greater vulnerability to economic downturns and a greater inability to liquidate our investments in an advantageous manner.**

As a BDC, we invest a portion of our assets in restricted securities issued by small, private companies, some of which have operated at losses or have experienced substantial fluctuations in operating results. There is generally little or no publicly available information about such companies and we must rely on the diligence of our Investment Adviser and Subadviser to obtain the information necessary to invest in these companies. If our Adviser and Subadviser are unable to obtain all material information about these companies, including with respect to operational, regulatory, environmental, litigation and managerial risks, our Adviser and Subadviser may not make a fully-informed investment decision, and we may lose some or all of the money invested in these companies. In addition, our Adviser and Subadviser may inappropriately value the prospects of an investment, causing us to overpay for such investment and fail to receive an expected or projected return on its investment.

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Typically, such companies depend for their success on the management talents and efforts of one person or a small group of persons, so that the death, disability or resignation of such person or persons could have a materially adverse impact on them. Moreover, smaller companies frequently have narrower product lines and smaller market shares than larger companies and, therefore, may be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities, and a larger number of qualified managerial and technical personnel. Because these companies will generally have highly leveraged capital structures, reduced cash flow resulting from an adverse business development, shifts in customer preferences, or an economic downturn or the inability to complete a public offering or other financing may adversely affect the return on, or the recovery of, our investment in them. Investment in such companies therefore involves a high degree of business and financial risk, which can result in substantial losses and, accordingly, should be considered highly speculative. No assurance can be given that some of our investments will not result in substantial or complete losses.

Substantially all of these securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell such investments at advantageous times and prices or in a timely manner. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we previously have recorded our investments. We also may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or one of our affiliates have material non-public information regarding such portfolio company.

**The long-term character of our Existing Portfolio investments may negatively**



**impact their current return and capital gains.**

Our Existing Portfolio investments yield a current return for most of their lives, but generally only produce a capital gain, if any, from an accompanying equity feature (which typically consists of a warrant for the purchase of common equity securities) after five to eight years. Both the current yield and a capital gain must be achieved on most investments in order to meet our investment goals. There can be no assurance that either a current return or capital gain will actually be achieved on our investments.

**There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.**

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken if we actually render significant managerial assistance.

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

We believe our portfolio companies generally will be able to repay our debt investments from their available capital, from future capital-raising transactions or from cash flow from operations. We expect generally that our debt investments that we make will be unsecured. However, in the event we take a security interest in the available assets of a portfolio company, there is a risk that the collateral securing our investment may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, a deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by a deterioration in the value of the collateral for the investment. Moreover, we may not have a first lien position on the collateral. Consequently, the fact that investment is secured does not guarantee that we will receive principal and interest payments according to the investment's terms or that

we will be able to collect on the investment should we be forced to enforce our remedies. In addition, a portion of the assets securing our investment may be in the form of intellectual property, if any, inventory and equipment and, to a lesser extent, cash and accounts receivable. Intellectual property, if any, that is securing our investment could lose value if, among other things, the company's rights to the intellectual property are challenged or if the company's license to the intellectual property is revoked or expires. Inventory may not be adequate to secure our investment if our valuation of the inventory at the time we made the loan was not accurate or if there is a reduction in the demand for the inventory. Similarly, any equipment securing our loan may not provide us with the anticipated security if there are changes in technology or advances in

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new equipment that render the particular equipment obsolete or of limited value or if the company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair our ability to recover principal in a foreclosure.

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

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

**We will be exposed to risks associated with changes in interest rates.**

Generally, when market interest rates rise, the values of debt securities decline, and vice versa. During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing us to reinvest in lower yielding securities. This is known as call or prepayment risk. Lower grade securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem a lower grade obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer.

### **Risks Related to the New Portfolio**

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

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

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**Holders of equity securities have rights which are subordinate to portfolio companies' other investors or debt holders.**

The New Portfolio's focus on equity securities will also expose us to risks as holders of common stock. For example, the interests of common stockholders are subordinated to the interests of creditors or holders of debt. Under most borrowing arrangements, lenders will have superior claims to a portfolio company's assets, and in the case of liquidation, creditors may receive first priority in the distribution of a portfolio company's assets. Furthermore, the interests of holders of common stock are often subordinated to the holders of any preferred stock. Holders of preferred stock may have superior voting rights over holders of common stock, and they often have superior rights in the case of portfolio company liquidation. Our transition to a much higher percentage of equity investments will expose us to these and other risks which we previously were only minimally exposed to.

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

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

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

We may engage in short selling. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Small- and micro-cap companies may rely on inexperienced management.**

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Small- and micro-cap companies may be young companies with inexperienced management. The lack of an experienced management team may prevent such companies from meeting its goals, which may reduce the expected yield on our investment.

**Small and micro-cap companies may rely on a small number of key employees, and if such employees leave the company, the company's performance may suffer.**

The success of small- and micro-cap companies may depend on a small number of key employees. Such companies' ability to retain its key employees will be important to successful operation of such companies. The unexpected loss of services of key employees, or the inability to recruit and retain qualified personnel in the future, may have an adverse effect on a companies business and financial results, which could devalue our investment.

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**Small- and micro-cap companies may operate in areas where rapid technology developments may render their business obsolete.**

New technologies or improvements to old technologies may render the product lines of small- and micro-cap companies obsolete. Because such companies may not have diverse product lines, any technological development that renders a product line obsolete may resulting a company having no product to market, which will severely devalue such company's securities. Such technological developments may prevent us from meeting our expected return on investment and may result in a complete loss of our investment.

**Small- and micro-cap companies may have relatively limited product lines, markets or financial resources.**

Small- and micro-cap companies may have relatively limited product lines, markets and/or financial resources. Therefore, such companies may be more vulnerable to competitors' actions and market conditions. Any action by competitors or downturn in market conditions may directly impact a company's business and financial results. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities. Such a decline in performance, may result in us not meeting our expected return on investment, and may result in a complete loss of investment.

**The securities of small- and micro-cap companies may be more volatile than other securities.**

Historically, small- and micro-cap companies have been more volatile in price than larger capitalized companies. Among the reasons for the greater price volatility of these securities are the lower degree of liquidity in the markets for such stocks, and the potentially greater sensitivity of such small- and micro-cap companies to changes in or failure of management and in many other changes in competitive, business, industry and economic conditions, including risks associated with limited product lines, markets, management depth, or financial resources. Such price volatility may result in us not meeting our expected return on investment.

**Small and micro-cap companies may be unable to obtain the financing required to fund necessary growth.**

Small- and micro- cap companies may require additional financing before such company can develop a product line to a point of profitability. Companies

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requiring additional capital may be unable to obtain such capital and as a result may not achieve profitability, which may result in us not meeting our expected return on investment and may result in a complete loss of investment.

### **There is limited liquidity in small and micro-cap companies.**

The liquidity of securities in small- and micro-cap companies may be more limited than that of other companies. The lack of liquidity may result in us not being able to dispose of the securities when we desire, which may result in us not being able to achieve our expected return on investment and may result in a complete loss of investment.

### **The value of securities in small- and micro-cap companies may not follow the value of larger companies or general economic conditions.**

The value of securities in small- and micro-cap companies may not follow the value of larger companies or general economic conditions for a variety of reasons, including, but not limited to, such companies having limited product lines available, key employees misguiding the company or the company may not be able to obtain needed financing. This may result in a small- or micro-cap company's performance suffering when the overall stock market is providing favorable returns or when overall economic conditions are favorable. As a result, our investment may not achieve our expected return on value and we may suffer a complete loss of investment during favorable economic conditions.

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### **Item 2. Properties.**

MACC does not own or lease any properties or other tangible assets. Its business premises and equipment are furnished by EAM. EAM is compensated for its provision of the business premises and equipment to MACC through the management fees paid by MACC to EAM.

### **Item 3. Legal Proceedings.**

There are no items to report.

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

There are no items to report.

## **PART II**

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Information in response to this Item is incorporated by reference to the "Shareholder Information" section of the 2008 Annual Report.

### **Item 6. Selected Financial Data.**

Information in response to this Item is incorporated by reference to the "Selected Financial Data" section of the 2008 Annual Report.

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

Information in response to this Item is incorporated by reference to the

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"Management's Discussion and Analysis of Financial Condition and Results of Operation" section of the 2008 Annual Report.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

MACC is subject to market risk from changes in market prices of publicly-traded equity securities held from time to time in the MACC investment portfolio. At September 30, 2008, MACC had no publicly-traded equity securities in the MACC investment portfolio.

MACC is also subject to financial market risks from changes in market interest rates. MACC currently has an outstanding note payable with a variable interest rate that is based on an independent index. Although this independent index is subject to changes, the maximum increase or decrease in the interest rate at any one time will not exceed 1%. General interest rate fluctuations may therefore have a material adverse effect on MACC's net investment income.

In addition, in the future, MACC may from time to time opt to draw on its revolving line of credit to fund cash requirements. These future borrowings will have a variable interest rate based on an independent index that is subject to changes; however, the maximum increase or decrease in the interest rate at any one time will not exceed 1%.

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### **Portfolio Risks**

Pursuant to Section 64(b)(1) of the 1940 Act, a BDC is required to describe the risk factors involved in an investment in the securities of such company due to the nature of MACC's investment portfolio. Accordingly, MACC states that:

#### *Existing Portfolio*

The Existing Portfolio securities of MACC consist primarily of securities issued by small, privately held companies. Generally, little or no public information is available concerning the companies in which MACC is currently invested in, and MACC must rely on the diligence of the Investment Adviser to obtain the information necessary for MACC's investment decisions. In order to maintain their status as a BDC, MACC must invest at least 70% of its total assets in the types of portfolio investments described by Section 55(a) of the 1940 Act, as amended. These investments generally are securities purchased in private placement transactions from small privately held companies. Typically, the success or failure of such companies depends on the management talents and efforts of one person or a small group of persons, so that the death, disability or resignation of such person or persons could have a materially adverse impact on such companies. Moreover, smaller companies frequently have smaller product lines and smaller market shares than larger companies and may be more vulnerable to economic downturns. Because these companies will generally have highly leveraged capital structures, reduced cash flows resulting from an economic downturn may adversely affect the return on, or the recovery of, MACC's investments. Investment in these companies therefore involves a high degree of business and financial risk, which can result in substantial losses and should be considered speculative.

MACC's Existing Portfolio investments primarily consist of securities acquired from the issuers in private transactions, which are usually subject to restrictions on resale and are generally illiquid. No established trading market generally exists with regard to such securities, and most of such securities are not available for sale to the public without registration under the Securities Act of 1933, as amended, which involves significant delay and expense.

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The Existing Portfolio investments of MACC are generally long-term in nature. Some existing investments do not bear a current yield and a return on such investments will be earned only after the investment matures or is sold. Although most investments are structured so as to return a current yield throughout most of their term, these investments will typically produce gains only when sold in five to seven years. There can be no assurance, however, that any of MACC's investments will produce current yields or gains.

### *New Portfolio*

MACC's New Portfolio will primarily consist of equity investments in smaller company growth stocks. Investments in growth stocks involves certain risks, in part, because the value of the securities is based upon future expectations that may or may not be met. We will therefore be particularly sensitive to the risks associated with small companies. The general risks associated with equity securities are particularly pronounced for securities issued by companies with small market capitalizations. Micro-cap and other small capitalization companies may offer greater opportunities for capital appreciation than larger companies, but may also involve certain special risks. They are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. They may also trade in the over-the-counter market or on a regional exchange, or may otherwise have limited liquidity. These securities may therefore be more vulnerable to adverse developments than securities of larger companies, and we may have difficulty establishing or closing out our securities positions in smaller companies at prevailing market prices. Also, there may be less publicly-available information about smaller companies or less market interest in their securities as compared to larger companies, and it may take longer for the prices of the securities to reflect the full value of the issuers' earnings potential or assets.

The majority of our New Portfolio investments will primarily consist of, securities acquired from the issuers in private transactions, which are usually subject to restrictions on resale and are generally illiquid. Often, no established trading market exists with regard to such securities, and most of such securities are not available for sale

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to the public without registration under the Securities Act 1933, which involves significant delay and expense. In addition, unregistered shares sold in a private transaction will typically sell at a discount to the price of publicly available registered shares.

### **Operations Risks**

MACC generally relies on portfolio investment divestitures and liquidity events, as well as increases in fair value of portfolio investments, to provide for increases in net asset value in any period. MACC typically relies on the sale of portfolio companies in negotiated transactions and on the initial public offering of portfolio company securities to provide for portfolio investment divestitures and liquidity events. Accordingly, a general contraction in the markets for corporate acquisitions and/or initial public offerings could adversely affect MACC's ability to realize capital gains, if any, from the sale of its Existing Portfolio company securities. The SEC guidelines under which MACC operates permit the MACC Board of Directors to determine increases in fair

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value of unliquidated Existing Portfolio investments based upon a number of factors, including subsequent financings provided to Existing Portfolio companies. Accordingly, decreases in the supply of additional capital to MACC's Existing Portfolio companies could adversely affect MACC's ability to achieve increases, if any, in fair value of its Existing Portfolio investments.

### **Interest Rate Risks**

MACC faces risks in relation to changes in prevailing market interest rates. First, at September 30, 2008, MACC had outstanding \$4,750,405 in principal amount of a note payable, which matures in August of 2009. This note has a variable rate of interest, and accordingly, changes in market interest rates will have an effect on the amount of interest paid by MACC with respect to the note. The interest rate on the note was 6.0% as of September 30, 2008.

Second, MACC's Existing Portfolio companies have or may issue debt senior to MACC's investment. The payment of principal and interest due on MACC's investment, therefore, will generally be subordinate to payments due on any such senior debt. Moreover, senior debt typically bears interest at a floating rate, whereas MACC's investments generally do not. Any increase in market interest rates may put significant economic pressure on those Existing Portfolio companies that have issued senior debt which bears interest at a floating rate. Accordingly, MACC's ability to achieve net operating income and generally to realize gains from its Existing Portfolio investments may be adversely affected by an increase in market interest rates.

### **Item 8. Financial Statements and Supplementary Data.**

Information in response to this Item is incorporated by reference to the financial statements, notes thereto and report thereon contained in the 2008 Annual Report.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There are no items to report.

### **Item 9A(T). Controls and Procedures.**

In accordance with Item 307 of Regulation S-K promulgated under the Securities Act, the Chief Executive Officer and Chief Financial Officer of the Company (the "Certifying Officers") have conducted evaluations of the Company's disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Securities 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

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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 the Company's disclosure controls and



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procedures and have concluded that those disclosure controls and procedures are effective as of the date of this Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

As of the date of this Annual Report on Form 10-K, there have not been any significant changes in the Company'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.

### **Internal Control Over Financial Reporting**

In accordance with Item 308T of Regulation S-K promulgated under the Securities Act, the management of MACC is responsible for establishing and maintaining adequate internal control over financial reporting. MACC's internal control system is a process designed to provide reasonable assurance to MACC's management and board of directors regarding the preparation and fair presentation of published financial statements.

MACC's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of MACC; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of MACC's internal control over financial reporting as of September 30, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on our assessment management believes that, as of September 30, 2008, the Corporation's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

### **Changes in Internal Control over Financial Reporting**

There have been no significant changes in our internal control or in other factors that could significantly affect those controls subsequent to our evaluation, including any corrective actions with regard to significant

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deficiencies and material weaknesses.

### Item 9B. Other Information.

There are no items to report.

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## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

#### Directors and Executive Officers

Our business and affairs are managed under the direction of our Board. Accordingly, our Board provides broad supervision over our affairs, including supervision of the duties performed by our Adviser and Subadviser. Certain employees of our Adviser are responsible for our day-to-day operations. The names, ages and addresses of our Directors and specified executive officers, together with their principal occupations and other affiliations during the past five years, are set forth below. Each Director and officer will hold office for a one year term to which he or she is elected and until his successor is duly elected and qualifies, or until he resigns or is removed in the manner provided by law. Our Board consists of a majority of Independent Directors. The Director who is an "interested person" (as defined in the 1940 Act) is referred to as an "Interested Director." The address for all Company Officers and Directors is 580 2nd Street, Suite 102, Encinitas, California 92024. None of our Directors or officers serve as a director for any other company which (i) has a class of securities registered under section 12 of the Exchange Act, (ii) is subject to section 15(d) of the Exchange Act, or (iii) is registered as an investment company under the 1940 Act; and MACC only has one investment portfolio.

#### Interested Director:

Name and Age	Position(s) Held with the Company	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Gordon J. Roth, 54+	Director	Since 2000	CFO and Chief Operating Officer, Roth Capital Partner investment banking firm specializing in small-cap companies. Chairman, Roth & Company, P.C. (public accounting firm, Des Moines, Iowa), 1990-2000. Prior to that, Mr. Roth was a partner at Arthur Andersen & Touche, a public accounting firm, in Des Moines.

+ As a member of the Board of Managers of EAM, Mr. Roth is an "interested person" of MACC, as that term is defined in Section 2(a)(19) of the 1940 Act.

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#### Independent Directors:

Term of

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<b>Name and Age</b>	<b>Position(s) Held with the Company</b>	<b>Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Seng Hoo Ong, 32	Director	Since October, 2008	Vice President, Strategic Planning Group, Charoen Pokphong (agribusiness conglomerate), since 2003; Associate (investment banking firm), 2000 - 2002. Mr. Ong received a Science degree in Finance from Babson College and a Diploma from the Singapore Institute of Banking of Finance.
Geoffrey T. Woolley, 49	Director and Chairman of the Board	Director since 2003, elected Chairman April, 2004	Executive Chairman, Kreos Capital Limited (founded in 2003) to introduce "venture leasing," an asset-backed debt financing equity participation to the European and Israeli markets. Partner, Dominion Ventures, Inc.; Managing Member, Director: BH Thermal Corp, University Opportunity Fund, Investment Corporation; Chairman of the Board: MorAmerica University Venture Fund, Hild Assets, Ltd. and University of Iowa Adviser: Polaris Ventures and Von Braun & Schrieber. Mr. Woolley holds an M.B.A. from the University of Iowa Business Management with a Minor in Economics from the University.
James W. Eiler, 57	Director	Since January, 2008	Principal, Eiler Capital Advisors (Investment Bank) and Managing Director, First National Investment Bank (Iowa) since 2007; Managing Partner, Cybus Capital Markets (Iowa) since 2004-2007; Senior Vice President, John Deere Credit Services (Iowa) (Financial Services), 1999-2004. Mr. Eiler holds an M.B.A. and a B.S. in Ag Business from Iowa State University.
Michael W. Dunn, 59	Director	Since 1994	Director, MorAmerica (1994 - 2008); C.E.O. (since 1980) and Director (since 1983), Farmers & Merchants Savings Bank, Iowa.

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**Officers:**

<b>Name and Age</b>	<b>Position(s) Held with the Company</b>	<b>Term of Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Travis Prentice, 33	President and CEO	Since April, 2008	President and Chief Investment Officer of EAM, a firm since 2007. In addition, he serves as portfolio manager for Growth and Ultra Micro Cap Growth investment strategies. Prior to EAM, Mr. Prentice was a Partner, Managing Director and Senior Advisor with Nicholas-Applegate Capital Management where he held management responsibilities for their Micro and Ultra Micro investment strategies and a senior role in the firm's US Micro/Euro investment strategies. He brings ten years of institutional investment experience with Nicholas-Applegate where he originally joined in 1997. He holds a Bachelor's in Business Administration from San Diego State University.

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Arts in Economics and a Bachelor of Arts in Psychology of Arizona.

Derek Gaertner, 37	Chief Financial Officer and CCO	Since April, 2008	Vice President and Chief Operating/ Compliance Officer joining EAM in 2007, Mr. Gaertner was the Chief Financial Officer of Pines Capital Management, a global long/short equity manager in San Diego, California. He was also responsible for regulatory compliance and operations functions. Prior to joining Pines Capital Management in 2004, Mr. Gaertner was a Senior Manager at PricewaterhouseCoopers LLP. He has over 8 years of professional accounting experience in both the audit and tax departments. Mr. Gaertner is a Certified Public Accountant and has a Bachelor's degree in Business Administration from the University of Southern California and a Master's degree in Taxation from Golden Gate University, San Francisco.
Montie L. Weisenberger 40	Treasurer and Secretary	Since April, 2008	Senior Vice President and Portfolio Manager of EAM, a private equity investment firm since 2007. Mr. Weisenberger has primary portfolio management responsibility for the firm's Small Cap Growth investment strategy. Prior to joining EAM, Mr. Weisenberger was a Senior Vice President and Portfolio Manager at Nicholas Applegate Capital Management where he had primary management responsibilities for the firm's Traditional Value Growth strategy and was a senior member of the firm's Small Cap Growth team since 2001. Prior to joining Nicholas Applegate Capital Management, Montie was a research analyst at Adams, Cannacord Adams, an emerging growth investment bank located in San Francisco. Mr. Weisenberger also spent more than five years as a management consultant, most recently as a manager at PricewaterhouseCoopers LLP. Mr. Weisenberger brings more than twelve years of professional accounting and financial analysis experience to EAM. He holds a Masters in Business Administration from Georgia State University and a Masters in Business Administration from Flagler College.

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### Common Stock Ownership of Directors

The following table represents, as of November 30, 2008 and based upon the closing price as reported by Nasdaq on November 30, 2008, the dollar range value of equity securities beneficially owned (as that term is defined in Rule 16a-1(a)(2) of the Exchange Act) by each Director of MACC. In the table, "Interested Director" indicates Directors who do not meet the definition of "independent director" provided in the rules applicable to companies listed on the Nasdaq Capital Market. In contrast, "Independent Directors" do meet such qualification.

Name of Independent Director	Dollar Range of Equity Securities in MACC	Aggrega of Equity Sec in F
Seng Hoo Ong	None	
Michael W. Dunn	\$10,001 - \$50,000	\$10,000
James W. Eiler	\$1- \$10,000	\$10,000
Geoffrey T. Woolley	Over \$100,000	Over \$100,000
Name of Interested Director	Dollar Range of Equity Securities in MACC	Aggrega of Equity Sec in F

Gordon J. Roth

\$10,001- \$50,000

\$10,

+ MACC consists of only one investment portfolio.

**Audit Committee**

The Board has a standing Audit Committee which makes recommendations to the Board regarding the engagement of the independent registered public accounting firm for audit and non-audit services; evaluates the independence of the auditors and reviews with the independent auditors the fee, scope and timing of audit and non-audit services. The Audit Committee also is charged with monitoring our Policy Against Insider Trading and Prohibited Transactions and our Code of Conduct. The Audit Committee presently consists of Michael W. Dunn (Chair), Geoffrey T. Woolley and James W. Eiler. Each member of the Audit Committee is considered "independent" under applicable NASDAQ listing standards. The Board has determined that James W. Eiler is an Audit Committee financial expert. The Audit Committee held four meetings in Fiscal Year 2008.

**Investment and Valuation Committee**

The Investment and Valuation Committee assists the full Board with the periodic valuation of our investment securities and with oversight of our investment portfolio and evaluates any proposed revisions to our investment policy. The Investment and Valuation Committee also assures compliance with our valuation policy and policies regarding investments made in participation with other funds managed by InvestAmerica, with entities controlling, controlled by or under common control with InvestAmerica, and with other affiliates. The voting members of the Investment and Valuation Committee presently include Michael W. Dunn, James W. Eiler and Gordon J. Roth (Chair). Mr. Dunn and Mr. Eiler are independent under NASDAQ listing standards. The Investment and Valuation Committee held three meetings in Fiscal Year 2008.

**Corporate Governance / Nominating Committee**

The Corporate Governance/Nominating Committee was appointed by the Board to identify and recommend approval of all Director nominees to be voted on at the Annual Stockholders' Meetings, to recommend corporate governance guidelines for the Company, to lead the Board in its annual review of the Board's performance, and to

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recommend to the Board nominees for each committee of the Board. On December 22, 2003, the Board approved the Corporate Governance/Nominating Committee Charter, which was last revised on October 9, 2008.

The Corporate Governance/Nominating Committee may seek input from other Directors or senior management in identifying candidates. Under our Third Amended and Restated Bylaws, stockholders desiring to nominate persons for election as Directors or to propose other business for consideration at an annual meeting must notify the Secretary of MACC in writing not less than 60 days, nor more than 90 days, prior to the date on which MACC first mailed its proxy materials for the prior year's annual meeting.

The qualifications used in evaluating Director candidates include but are not limited to: independence, time commitments, attendance, business judgment,

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management, accounting, finance, industry and technology knowledge, as well as, personal and professional ethics, integrity and values. In addition, as set forth in its Charter, the Corporate Governance/Nominating Committee believes that having directors with relevant experience in business and industry, government, finance and other areas is beneficial to the Board as a whole. The Corporate Governance/Nominating Committee further reviews the qualifications of any candidate in the context of the current composition of the Board and the needs of MACC. The same identifying and evaluating procedures apply to all candidates for director nomination, whether nominated by stockholders or by the Corporate Governance/Nominating Committee.

The Corporate Governance/Nominating Committee also: (i) oversees the formulation of, and recommends for adoption to the Board, a set of corporate governance guidelines; (ii) periodically reviews and reassesses the corporate governance guidelines and recommends appropriate changes to the Board for approval; (iii) reviews and approves annually the MACC's compensation program for service on the Board or any of its committees; (iv) performs an annual assessment of the Board's performance and periodically reports its Board assessments to the Board; (v) annually reviews and assesses its Charter and makes recommendations of appropriate changes to the Board; (vi) performs periodic reviews of all Board committee structure and governance charters; (vii) recommends appropriate changes to Board committee composition and responsibility to the Board; and (viii) reviews any conflicts of interest.

The Corporate Governance/Nominating Committee consists of Geoffrey T. Woolley (Chair), James W. Eiler and Michael Dunn. All members of the Corporate Governance/Nominating Committee are considered "independent" under applicable NASDAQ listing standards. The Corporate Governance/Nominating Committee held two meetings in Fiscal Year 2008.

### **Code of Ethics**

The Company, the Adviser and the Subadviser have each adopted a code of ethics under Rule 17j-1 of the 1940 Act, which is applicable to the officers, Directors and designated employees of the Company, the Adviser and the Subadviser (collectively, the "Codes of Ethics"). Subject to certain limitations, the Codes of Ethics permit those officers, Directors and designated employees of the Company, the Adviser and the Subadviser (the "Covered Persons") to invest in securities, including securities that may be purchased or held by the Company. The Codes of Ethics contain provisions and requirements designed to identify and address certain conflicts of interest between personal investment activities of Covered Persons and the interests of the investment advisory clients of the Adviser and the Subadviser such as the Company. Among other things, the Codes of Ethics prohibit certain types of transactions absent prior approval, impose time periods during which personal transactions may not be made in certain securities, and requires submission of duplicate broker confirmations and statements and quarterly reporting of securities transactions. Exceptions to these and other provisions of the Codes of Ethics may be granted in particular circumstances after review by appropriate personnel.

The Codes of Ethics can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 942-8090. The Codes of Ethics are also available on the EDGAR database on the SEC's internet site at [www.sec.gov](http://www.sec.gov), and, upon payment of a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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### Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Exchange Act, officers and directors of the Company and persons beneficially owning 10% or more of the Company's Common Stock (collectively, "reporting persons") must file reports on Forms 3, 4 and 5 regarding changes in their holdings of the Company's equity securities with the Securities and Exchange Commission ("SEC"). Based solely upon a review of copies of these reports sent to the Secretary of the Company and/or written representations from reporting persons that no Form 5 was required to be filed with respect to Fiscal Year 2008, the Company believes that all Forms 3, 4, and 5 required to be filed by all reporting persons have been properly and timely filed with the SEC with the exception of the Form 3 filed for Director James W. Eiler.

### Item 11. Executive Compensation.

#### Compensation of Directors

The compensation of our Directors is governed by a compensation policy adopted via resolution of the Board on February 24, 2004 and amended on July 18, 2006 (the "Compensation Policy"). The Compensation Policy provides that: (i) Directors of MACC who are also officers or directors of our investment adviser receive no compensation for serving on the Board; (ii) the Chairman of the Board receives an annual retainer of \$24,000; (iii) all other outside Directors receive an annual retainer of \$8,000; (iv) all outside Directors other than the Chairman of the Board receive \$1,000 for each Board meeting attended (whether such attendance is in person or by telephone) if the meeting is scheduled as an in-person meeting and \$500 for each Board meeting attended by telephone if the meeting is scheduled to be held by teleconference; (v) all Directors other than the Chairman of the Board receive \$250 for each committee meeting attended (whether such attendance is in person or by telephone) if the committee meeting is scheduled as an in-person meeting and \$250 for each committee meeting attended by telephone if the meeting is scheduled to be held by teleconference; and (vi) we reimburse all reasonable expenses of the Directors and the Chairman of the Board in attending Board and committee meetings. Directors' meetings are normally held on a quarterly basis, with additional meetings held as needed. All Director compensation is payable quarterly, in arrears.

The following table sets forth the details of the compensation paid to Directors during Fiscal Year 2008. MACC presently maintains no pension or retirement plans for its Directors.

<u>Name and Position</u>	<u>Aggregate Compensation From MACC (1)</u>
Geoffrey T. Woolley Chairman of the Board	\$24,000
Benjamin Jiaravanon(2)	\$0
Jasja De Smedt Kotterman(3)	\$2,000
Michael W. Dunn	\$14,250
Gordon J. Roth	\$13,250
Seng Hoo Ong (4)	\$0
James W. Eiler	\$10,500

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- (1) Consists only of directors' fees and does not include reimbursed expenses. MACC presently maintains no pension or retirement plans for its Directors.
  - (2) Mr. Jiaravanon resigned as Director, effective October 9, 2008.
  - (3) Ms. Kotterman did not stand for re-election at the 2008 Annual Meeting.
  - (4) Mr. Ong was appointed to replace Mr. Jiaravanon's position on the Board on October 9, 2008.

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**Compensation of Executive Officers Discussion and Analysis**

The Company has no employees and does not pay any compensation to any of its officers. The Company has not compensated its executive officers in any of the last three fiscal years. The Company does not provide any of bonus, stock options, stock appreciation rights, non-equity incentive plans, non-qualified deferred compensation or pension benefits to its executive officers. Further, the Company has no agreements with any officer pertaining to change in control payments. All of the Company's officers and staff are employed by the Adviser, which pays all of their cash compensation.

**Compensation Committee Interlocks and Insider Participation**

The Company does not have a separate compensation committee utilized to determine the appropriate compensation payable to the Company's executive officers and Directors due to the size of the Company. The Corporate Governance/Nominating Committee, however, is responsible for, among other things, annually reviewing and approving the Company's compensation policies for Directors. The members of the Corporate Governance/Nominating Committee for Fiscal Year 2008 were Geoffrey T. Woolley (Chair), James W. Eiler and Michael W. Dunn. All members of the Corporate Governance/Nominating Committee are considered "independent" under applicable NASDAQ listing standards. No members of the Committee have ever served as officers or employees of the Company. No executive officers of the Company served, during Fiscal Year 2008: (i) on a compensation committee of another entity which had an executive officer serving on the Corporate Governance/Nominating Committee; (ii) as a director of another entity which had an executive officer serving on the Corporate Governance/Nominating Committee; or (iii) as a member of a compensation committee of another entity which had an executive officer who served as a Director of the Company.

**Compensation Committee Report**

The Corporate Governance/Nominating Committee has not reviewed or discussed with the Company's management the Compensation of Executive Officers Discussion and Analysis set forth above because the Company's standing policy is to not compensate executive officers. The Corporate Governance/Nominating Committee did recommend to the Board of Directors that the Compensation of Executive Officers Discussion and Analysis be included in this report on Form 10-K.

CORPORATE GOVERNANCE /  
NOMINATING COMMITTEE:  
Geoffrey T. Woolley, Chair  
Michael W. Dunn  
James W. Eiler

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

**Common Stock Ownership**

As of November 30, 2008, there were 2,464,621 shares of Common Stock issued and outstanding. Because they serve as our investment advisers, EAM, a California limited liability company located at 580 Second Street, Suite 102, Encinitas, California 92024, and InvestAmerica, a Delaware corporation located



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at 101 Second Street S.E., Suite 800, Cedar Rapids IA 52401, are deemed to control us, within the meaning of the 1940 Act. Additionally, Atlas Management Partners, LLC ("Atlas"), Bridgewater International Group, LLC ("BIG"), Mr. Benjamin Jiaravanon (a former Director of the Company) and Mr. Timothy Bridgewater control the Company through either direct or beneficial ownership of 804,689 of the Company's shares, which as of November 30, 2008 comprise 32.65% of the Company's issued and outstanding stock. Atlas and BIG are organized under the laws of the State of Utah.

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Our officers and directors, eight in number as a group, beneficially own 242,099 Shares together, equal to 9.82% of our outstanding Common Stock. The following table sets forth certain information as of November 30, 2008, with respect to the Common Stock ownership of: (i) those persons or groups (as that term is used in Section 13(d)(3) of the Exchange Act who beneficially own more than 5% of the Common Stock, and (ii) each Director of the Company. Unless otherwise indicated, the addresses for the persons listed in the table is 580 Second Street, Suite 102, Encinitas, California 92024.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class of Voting Common Stock
Atlas Management Partners, LLC (1) One South Main Street, Suite 1660, Salt Lake City, Utah 84133	804,689	32.65%
Bridgewater International Group, LLC (1) 10500 South 1300 West, South Jordan, Utah 84095	804,689	32.65%
Timothy A. Bridgewater (1) 10500 South 1300 West South Jordan, Utah 84095	817,789	33.18%
Benjamin Jiaravanon (1) Ancol Barat, Jl Ancol VIII, No.1 Jakarta 14430 Indonesia	804,689	32.65%
Geoffrey T. Woolley	151,314	6.14%
Gordon J. Roth(2)	34,201	1.38%
Michael W. Dunn	46,584	1.89%
Seng Hoo Ong	0	0%
James W. Eiler	10,000	0.04%
<b>All Officers and Directors as a Group</b>	<b>242,099</b>	<b>9.82%</b>

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- (1) The foregoing information with respect to Atlas, BIG, Mr. Jiaravanon and Mr. Bridgewater is based upon Amendment No. 1 to Schedule 13D, dated September 30, 2003, as subsequently amended February 13, 2004, April 28, 2005 and April 30, 2005, filed by Atlas, BIG and others with the SEC (collectively, the "Atlas Group 13D"). The Atlas Group 13D disclosed control over 804,689 shares of Common Stock owned by BIG (the "BIG Shares") is governed by a Shareholder and Voting Agreement dated September 29, 2003 among Atlas, BIG and Kent Madsen (the "Shareholder Agreement"). The term of the Shareholder Agreement extends to March 1, 2010 and may be extended in certain circumstances; however, the Shareholder Agreement may also be terminated at any time by any party. Under the Shareholder Agreement, BIG appointed Atlas as its limited proxy to vote the BIG Shares, but BIG retains all other incidents of ownership of the stock, including beneficial ownership and dispositive power. The Shareholder Agreement also provides Atlas with certain rights of first refusal respecting the BIG Shares and limits BIG's ability to otherwise dispose of the BIG Shares. Pursuant to a Mutual Release and Waiver of Claims and Termination of Shareholder and Voting Agreements among Atlas, BIG and the former managers of Atlas dated April 28, 2005 and filed as part of the Atlas Group 13D, certain former managers of Atlas, including Geoffrey Woolley (the Chairman of MACC's Board) and Kent Madsen, no longer have any interests in Atlas and have no voting rights respecting the BIG Shares.

As voting Managing Director of Atlas, Mr. Bridgewater has shared control over the voting power granted to Atlas under the Shareholder Agreement respecting the BIG Shares, subject to the parties' rights under the Shareholder Agreement. Mr. Bridgewater is also Managing Director of BIG and in that capacity has shared control over the voting power granted to Atlas under the Shareholder Agreement respecting the BIG Shares, subject to the parties' rights under the Shareholder Agreement. Mr. Bridgewater also individually owns 13,100 shares of Common Stock, according to reports Mr. Bridgewater has filed with the SEC pursuant to Section 16(a) of the Exchange Act. As the sole Managing Member of BIG, Mr. Jiaravanon has shared control over the voting power granted to Atlas under the Shareholder Agreement respecting the BIG Shares, subject to the parties' rights under the Shareholder Agreement. BIG is a wholly owned subsidiary of Aleksin, a corporation organized under the laws of the British Virgin Islands. Aleksin is a wholly-owned subsidiary of Maze Industrial Ltd. ("Maze"), a corporation organized under the laws of the British Virgin Islands. Maze is 100% owned by Sumet Jiaravanon, an individual.

- (2) Mr. Gordon Roth individually owns 5,151 shares of Common Stock. Roth Capital Partners, LLC, in which Mr. Roth has shared control of voting power, owns 29,050 shares of Common Stock.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

#### **Investment Adviser and Certain Business Relationships**

MACC entered into the Advisory Agreement with EAM on April 29, 2008, which was approved by the MACC shareholders at the 2008 Annual Shareholders Meeting. EAM is registered as an investment adviser under California law and is subject to the reporting and other requirements thereof. EAM's address is 580 Second Street, Suite 102, Encinitas, California 92024.

The Advisory Agreement provides that EAM is entitled to receive a Management Fee equal to an annual rate of 2.0% of Assets Under Management (as defined in the Advisory Agreement). In addition to the Management Fee, EAM is entitled to receive the Incentive Fee in an amount equal to (i) 20.0% of the net

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capital gains, before taxes, attributable to MACC's New Portfolio (which would include any follow-on investments made to the Existing Portfolio) and (ii) 13.4% of the Net Capital Gains, before taxes, attributable to MACC's Existing Portfolio (as defined in the Advisory Agreement). The amount of the Incentive Fee and all incentive compensation in any fiscal year, may not exceed the limit prescribed by Section 205(b)(3) of the Investment Advisers Act of 1940. Total Management Fees under the Advisory Agreement paid to EAM for the year ended September 30, 2008 were \$32,921. There were no incentive fees accrued or paid under the Advisory Agreement to EAM in the fiscal year ended September 30, 2008.

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MACC, EAM and InvestAmerica are also parties to a Subadvisory Agreement dated April 29, 2008 ("Subadvisory Agreement") and approved by MACC shareholders at the 2008 Annual Shareholders Meeting. The address of the Subadviser is 101 Second Street S.E., Suite 800, Cedar Rapids, Iowa 52401. From MACC's inception in 1995 through 2004, and then from July 2005 through April 29, 2008, InvestAmerica was the investment adviser to MACC. Pursuant to the Subadvisory Agreement, InvestAmerica has been retained to monitor and manage the Existing Portfolio, including exits, preparation of valuations, follow-on investment analysis and recommendations and other portfolio management matters. InvestAmerica also currently provides certain accounting and financial services for MACC. During the first three months of the term of the Subadvisory Agreement, EAM paid InvestAmerica a management fee equal to 75% of the Management Fee received by EAM under the Advisory Agreement attributable to the Existing Portfolio. For the remainder of the term of the Subadvisory Agreement, EAM will pay InvestAmerica a management fee equal to 50% of the Management Fee received by EAM under the Advisory Agreement attributable to the Existing Portfolio. The amount of the incentive fee payable by EAM to InvestAmerica under the Subadvisory Agreement is 100% of the incentive fee received by EAM under the Advisory Agreement attributable to the Existing Portfolio. The Subadvisory Agreement does not result in any additional expense to MACC. Total Management Fees under the Subadvisory Agreement paid to InvestAmerica for the year that ended September 30, 2008 were \$98,763. There were no incentive fees accrued or paid under the Subadvisory Agreement to InvestAmerica in the fiscal year ended September 30, 2008.

Mr. Travis T. Prentice, President and CEO of MACC is a founder and President of EAM. Mr. Montie L. Weisenberger, Treasurer and Secretary of MACC is a founder and Senior Vice President of EAM. Mr. Derek Gaertner Chief Financial Officer and Chief Compliance Officer of MACC is Vice President of EAM.

Prior to the merger of MorAmerica into MACC, MACC and MorAmerica were each parties to investment advisory agreements (the "IAIA Agreements") with InvestAmerica which both terminated on April 29, 2008. Three of MACC's former officers are officers and stockholders of InvestAmerica. The management fee under the IAIA Agreements was equal to an annual rate of 1.5% of Assets Under Management (as defined in the IAIA Agreements), payable in arrears. In addition to the management fee, MACC and MorAmerica each contracted to pay an incentive fee of 13.4% of their respective Net Capital Gains (as defined in the IAIA Agreements), before taxes. Capital losses and realized capital gains were not cumulative under the incentive fee computation. Payments for incentive fees resulting from noncash gains were deferred until the assets are sold. Total management fees under the IAIA Agreements amounted to \$150,773 for the year ended September 30, 2008. Incentive fees earned and paid under the IAIA Agreements were \$0 and \$232,499, respectively, for the year ended September 30, 2008.

### **Independent Directors**

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The following Directors of the Company meet the definition of "independent director" provided in the independence standards applicable to companies listed on the Nasdaq Capital Market (the "Independence Standards"): Michael W. Dunn, James W. Eiler, Geoffrey T. Woolley, Seng Hoo Ong.

### Item 14. Principal Accounting Fees and Services.

The following table presents fees paid for professional services rendered by KPMG LLP ("KPMG"), the Company's independent registered public accounting firm, for fiscal Year 2007 and for the fiscal year ending September 30, 2008:

Fee Category	Fiscal Year 2008 Fees	Fiscal Year 2007 Fees
Audit Fees	\$75,500	\$75,500
Audit-Related Fees	-0-	-0-
Tax Fees	\$14,900	\$14,900
All Other Fees	-0-	-0-
Total Fees	\$90,400	\$90,400

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*Audit Fees* were for professional services rendered for the audit of the Company's financial statements and review of the interim financial statements included in quarterly reports and services that are normally provided by KPMG in connection with statutory and regulatory filings or engagements and include quarterly reviews and security counts.

*Audit-Related Fees* were for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees." These services include accounting consultations in connection with acquisitions, consultations concerning financial accounting and reporting standards.

*Tax Fees* were for professional services for federal, state and international tax compliance, tax advice and tax planning and include preparation of federal and state income tax returns, and other tax research, consultation, correspondence and advice.

*All Other Fees* are for services other than the services reported above. The Company did not pay any fees for such other services in fiscal year 2008 or fiscal year 2007.

The Audit Committee has concluded the provision of the non-audit services listed above is compatible with maintaining the independence of KPMG. KPMG did not bill the Company's investment adviser, EAM, for any non-audit services in either fiscal year 2008 or fiscal year 2007.

#### **Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm**

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These

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services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

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### PART IV

#### Item 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this Report:

- (1) Balance Sheet at September 30, 2008  
Statement of Operations for the year ended September 30, 2008  
Statements of Changes in Net Assets for the years ended September 30, 2008 and September 30, 2007  
Statement of Cash Flows for the year ended September 30, 2008  
Notes to Financial Statements  
Schedule of Investments as of September 30, 2008  
Notes to the Schedule of Investments  
The Report of the Independent Registered Public Accounting Firm with respect to the financial statements listed above.
  - (2) No financial statement schedules of the Company are filed herewith because (i) such schedules are not required or (ii) the information required has been presented in the aforementioned financial statements and schedule of investments.
  - (3) The following exhibits are filed herewith or incorporated by reference as set forth below:
    - 3(i).1(1) Certificate of Incorporation of the Company.
    - 3(i).2(2) Articles of Amendment to the Certificate of Incorporation of the Company.
    - 3(ii)(3) Third Amended and Restated By-Laws of the Company.
    - 10.1(4) Investment Advisory Agreement between MACC Private Equities Inc. and Eudaimonia Asset Management, LLC dated April 29, 2008.
    - 10.2(4) Investment Subadvisory Agreement among the Company, Eudaimonia Asset Management, LLC and InvestAmerica Investment Advisors, Inc. dated April 29, 2008
    - 10.3(5) Term Loan and Line of Credit Agreement by and among MACC Private Equities Inc. successor in interest to MorAmerica Capital Corporation and Cedar Rapids Bank and Trust Company dated August 30, 2007.
    - 13 2008 Annual Report to Stockholders.
    - 14(6) Code of Business Conduct and Ethics
    - 31.1 Section 302 Certification of Travis T. Prentice (President).
    - 31.2 Section 302 Certification of Derek Gaertner (CFO).
    - 32.1 Section 906 Certification of Travis T. Prentice (President).
    - 32.2 Section 906 Certification of Derek Gaertner (CFO).
- (1) Incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, as filed with the SEC on May 14, 1997.

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(2) Incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, as filed with the SEC on August 15, 2005.

(3) Incorporated by reference to the Current Report on Form 8-K, as filed with the SEC on October 14, 2008.

(4) Incorporated by reference to the Current Report on Form 8-K, as filed with the SEC on May 1, 2008.

(5) Incorporated by reference to the Current Report on Form 8-K, as filed with the SEC on September 6, 2007.

(6) Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K, as filed with the SEC on October 14, 2008.

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(b) Exhibits

See (a) (3) above.

(c) Financial Statement Schedules

See (a) (1) and (a) (2) above.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on December 19, 2008.

/s/ Travis T. Prentice

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Travis T. Prentice  
President and CEO

/s/ Derek Gaertner

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Derek Gaertner  
Chief Financial Officer and  
Chief Compliance Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934,

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this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<b>Signature</b> -----	<b>Date</b> -----
<p>/s/ Geoffrey T. Woolley ----- Geoffrey T. Woolley, Chairman of the Board</p>	December 1
<p>/s/ Michael W. Dunn ----- Michael W. Dunn, Director</p>	December 1
<p>/s/ Seng Hoo Ong ----- Seng Hoo Ong, Director</p>	December 1
<p>/s/ James W. Eiler ----- James W. Eiler, Director</p>	December 1
<p>/s/ Gordon J. Roth ----- Gordon J. Roth, Director</p>	December 1