

MACC PRIVATE EQUITIES INC
Form 10-Q
August 16, 2010

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

Form 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2010

£ 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
(State or other jurisdiction of incorporation or organization)

42-1421406
(I.R.S. Employer Identification No.)

2533 South Coast Highway 101, Suite 240, Cardiff-By-The Sea, California 92007
(Address of principal executive offices)

(760) 479-5080
(Registrant's telephone number, including area code)

Former Address: 580 Second Street; Suite 102, Encinitas, California 92024
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 or Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes £ No £

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

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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

At July 1, 2010, the registrant had issued and outstanding 2,464,621 shares of common stock.

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PART I -- FINANCIAL INFORMATION

Item 1.

Financial Statements

MACC PRIVATE EQUITIES INC.
Condensed Balance Sheets
(Unaudited)

| | June 30, 2010 (unaudited) | Fiscal Year Ended September 30, 2009 |
|--|------------------------------|---|
| Assets | | |
| Cash and cash equivalents | \$ 101,165 | 173,521 |
| Loans and investments in portfolio securities, at market or fair value: | | |
| Unaffiliated companies (cost of \$744,426 and \$779,807) | 1,199,686 | 1,199,388 |
| Affiliated companies (cost of \$8,023,489 and \$10,664,161) | 7,878,294 | 7,973,862 |
| Controlled companies (cost of \$2,874,939 and \$2,874,939) | 2,602,022 | 2,602,022 |
| Interest receivable | 21,355 | 303,656 |
| Other assets | 244,553 | 264,070 |
| Total assets | \$ 12,047,075 | 12,516,519 |
| Liabilities and net assets | | |
| Liabilities: | | |
| Notes payable | 4,414,721 | 4,618,659 |
| Incentive fees payable | 16,361 | 16,361 |
| Accounts payable and other liabilities | 309,992 | 72,111 |
| Total liabilities | 4,741,074 | 4,707,131 |
| Net assets: | | |
| Common stock, \$.01 par value per share; authorized 10,000,000 shares; issued and outstanding 2,464,621 shares | 24,646 | 24,646 |
| Additional paid-in-capital | 6,703,628 | 10,328,377 |
| Unrealized appreciation (depreciation) on investments | 577,727 | (2,543,635) |
| Total net assets | 7,306,001 | 7,809,388 |
| Total liabilities and net assets | \$ 12,047,075 | 12,516,519 |
| Net assets per share | \$ 2.96 | 3.17 |

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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

| | For the three months ended June 30, 2010 | For the three months ended June 30, 2009 | For the nine months ended June 30, 2010 | For the nine months ended June 30, 2009 |
|--|--|---|---|---|
| Investment income: | | | | |
| Interest | | | | |
| Unaffiliated companies | \$ 16,343 | 96,049 | 49,922 | 111,878 |
| Affiliated companies | 46,155 | 31,397 | 157,232 | 178,372 |
| Controlled companies | (44,229) | 6,056 | 179,751 | 18,834 |
| Loss on interest receivable | --- | --- | (241,843) | --- |
| Other | 44 | 31 | 275 | 223 |
| Dividends | | | | |
| Affiliated companies | 38,017 | 18,912 | 82,959 | 136,279 |
| Other income | --- | --- | --- | --- |
| Total investment income | 56,330 | 152,445 | 228,296 | 445,586 |
| Operating expenses: | | | | |
| Interest expenses | 67,914 | 85,745 | 206,788 | 229,147 |
| Management fees | 55,312 | 70,290 | 174,936 | 221,554 |
| Professional fees | 106,185 | 54,870 | 282,146 | 229,463 |
| Other | 78,033 | 70,903 | 213,047 | 215,354 |
| Total operating expenses before waivers | 307,444 | 281,808 | 876,917 | 895,518 |
| Expenses reduced by Advisor | (27,656) | (29,251) | (87,468) | (29,251) |
| Total operating expenses | 279,788 | 252,557 | 789,449 | 866,267 |
| Investment expense, net | (223,458) | (100,112) | (561,153) | (420,681) |
| Realized and unrealized gain (loss) on investments and other assets: | | | | |
| Net realized gain (loss) on investments: | | | | |
| Unaffiliated companies | --- | (372,201) | --- | (1,140,811) |
| Affiliated companies | --- | (868,602) | (3,063,596) | (868,602) |
| Net change in unrealized appreciation/depreciation on investments | 826,589 | 165,280 | 3,121,362 | 52,609 |
| Net gain (loss) on investments | 826,589 | (1,075,523) | 57,766 | (1,956,804) |

| | | | | |
|--|------------|-------------|-----------|-------------|
| Net change in net assets from operations | \$ 603,131 | (1,175,635) | (503,387) | (2,377,485) |
|--|------------|-------------|-----------|-------------|

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

MACC PRIVATE EQUITIES INC.
Condensed Statements of Changes in Net Assets
(Unaudited)

| | For the nine months ended June 30, 2010 | For the nine months ended June 30, 2009 |
|--|---|---|
| Operations: | | |
| Investment expense, net | \$(561,153) | (420,681) |
| Net realized loss on investments | (3,063,596) | (2,009,413) |
| Net change in unrealized depreciation/appreciation on investments and other assets | 3,121,362 | 52,609 |
| Net change in net assets from operations | (503,387) | (2,377,485) |
| Net assets: | | |
| Beginning of period | 7,809,388 | 10,434,981 |
| End of period | \$ 7,306,001 | 8,057,496 |

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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

| | For the nine months ended June 30, 2010 | For the nine months ended June 30, 2009 |
|---|---|---|
| Cash flows (used in) from operating activities: | | |
| Net change in net assets from operations | \$ (503,387) | (2,377,485) |
| Adjustments to reconcile net change in net assets from operations to net cash provided by (used in) operating activities: | | |
| Net realized and unrealized (gain) loss on investments | (87,310) | 1,956,804 |
| Proceeds from disposition of and payments on loans and investments in portfolio securities | 254,922 | 545,477 |
| Purchases of loans and investments in portfolio securities | (72,342) | (139,586) |
| Change in interest receivable | 282,301 | 17,809 |
| Change in other assets | 19,517 | 26,812 |
| Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities | 237,881 | 788 |
| Net cash provided by operating activities | 131,582 | 30,619 |
| Cash flows used in financing activities: | | |
| Line of credit draws | --- | 330,000 |
| Note repayment | (203,938) | (436,383) |
| Net cash (used in) financing activities | (203,938) | (106,383) |
| Net decrease in cash and cash equivalents | (72,356) | (75,764) |
| Cash and cash equivalents at beginning of period | 173,521 | 145,790 |
| Cash and cash equivalents at end of period | \$ 101,165 | 70,026 |
| Supplemental disclosure of cash flow information - | | |
| Cash paid during the period for interest | \$ 204,538 | 216,946 |
| Supplemental disclosure of non-cash investing and financing information - | | |
| In-kind interest income received in the form of securities | \$ 241,843 | --- |

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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MACC PRIVATE EQUITIES INC.

Notes to Unaudited Condensed Financial Statements

(1) Basis of Presentation

The accompanying unaudited condensed financial statements include the accounts of MACC Private Equities Inc. (“MACC,” “we” or “us”) and have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for investment companies. MACC has elected to be treated as a business development company under the Investment Company Act of 1940, as amended. On February 15, 1995, MACC consummated a plan of reorganization as confirmed by the United States Bankruptcy Court for the Northern District of Iowa on December 28, 1993. As of February 15, 1995, MACC adopted fresh-start reporting resulting in MACC’s assets and liabilities being adjusted to fair values. Effective April 30, 2008, MACC’s wholly-owned subsidiary, MorAmerica Capital Corporation, (“MorAm”), was merged with and into MACC.

The unaudited condensed financial statements included herein have been prepared in accordance with GAAP for interim financial information and instructions to Form 10-Q and Articles 6 and 10 of Regulation S-X. Accordingly, certain information and note disclosures normally included in annually audited financial statements prepared in accordance with GAAP have been omitted, however MACC believes that the disclosures made are adequate to make the information presented not misleading. The unaudited condensed financial statements should be read in conjunction with the audited financial statements and notes thereto of MACC as of and for the year ended September 30, 2009 included in the MACC’s Form 10-K, as filed with the Securities and Exchange Commission (the “SEC”). The information reflects all adjustments consisting of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods. The results of the interim periods reported are not necessarily indicative of results to be expected for the year.

Immaterial Correction

An immaterial correction has been made to the presentation of the Condensed Statement of Operations in our December 31, 2009 and March 31, 2010 Form 10-Q’s to separately reflect gross management fees and advisor fee waivers, which had previously been reported net. There was no change to total Operating expense or Investment expense, net. These adjustments did not have a material impact on our consolidated financial statements for the period presented. An immaterial correction has been made to Financial Highlights (Unaudited), Note 8 to present the ratios of Weighted Average Net Assets to Investment Expense and Operating and Income Tax Expense on an annualized basis. Under the “Condensed Statements of Changes in Net Assets” the Company did not present the ratios of Weighted Average Net Assets to Investment Expense and Operating and Income Tax Expense on an annualized basis. The Amendment presents this information on an annualized basis.

In addition, management will prospectively change, in the September 30, 2010 Form 10-K, the presentation of management fees to appropriately reflect the management fee waivers on the Condensed Statement of Operations to separately reflect gross management fees and advisor fee waivers, which had previously been reported net.

Significant Risk and Uncertainties

When global economic conditions are adverse or the global economy is in a recession as it was during fiscal 2009 and continues to be in 2010, it is difficult for us to estimate future expected realizable value from investments, the likelihood of our portfolio companies' ability to meet their financial obligations, including the debentures and related interest payments due to us, and therefore our future expected cash flows. All of these factors increase uncertainty inherent in management's estimates and assumptions. As future events and their effects cannot be determined with precision, particularly those related to the condition of the economy and the performance of the investments, we believe actual results related to our realization on the sale of investments, collection of loans receivable and interest receivable presently pose our greatest risk and could differ significantly from our current estimates.

(2) Going Concern Uncertainty and Liquidity

MACC has a negative net change in net assets from operations of \$503,387 for the nine months ended June 30, 2010 and generated net cash flow from operations of \$131,582 to fund our operating activities and financing requirements for the nine months ended June 30, 2010 and for ongoing operating expenses. Operating expenses have been funded primarily from the sale of portfolio companies, dividends, interest and other distributions from our portfolio companies and our bank financing.

We continue to have an ongoing need to raise cash from portfolio sales to fund our operations and pay down outstanding debt. Our efforts to sell certain investments has taken longer than we initially anticipated while performance of the underlying portfolio companies in certain cases has deteriorated. We believe our ability to liquidate positions had been adversely affected by credit conditions and the downturn in the financial markets and the global economy. Our Note Payable with Cedar Rapids Bank & Trust Company (“CRB&T”) with a balance of \$4,414,721 as of June 30, 2010 is due and payable January 10, 2011 (“Note Payable”). Under this agreement, the Company is required to comply with certain financial covenants, including maintaining a minimum liquidity of \$500,000, which commences upon the closing of the capital transaction discussed below. Given our current lack of liquid assets and funds to satisfy the Note Payable, there is substantial doubt that we will continue to operate as a going concern. Our ability to raise additional capital will depend on conditions in the capital markets which are outside our control. As a result, we cannot be certain of our ability to raise additional capital and such uncertainty raises substantial doubt about our ability to continue to operate as a going concern.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible future effects of the inability to continue operate as a going concern.

(3) Critical Accounting Policies

Investments

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

In the valuation process, we use financial information received monthly, quarterly, and annually from our portfolio companies which includes both audited and unaudited financial statements. This information is used to assist in assessing financial condition, performance, and valuation of the portfolio investments.

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

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from these estimates. Current economic conditions, including illiquid credit markets, volatile equity markets, and deteriorating economic conditions contribute to the inherent uncertainty of such estimates. Management's estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the unaudited condensed financial statements in the periods they are determined to be necessary.

(4) Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that requires reporting entities to make new disclosures about recurring and non-recurring fair value measurements including significant transfers into and out of Level I and Level II fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level III fair value measurements. The FASB also clarified existing fair value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The Company has included the applicable disclosures in the Form 10-Q.

(5) Fair Value Measurements

Investments

MACC follows the accounting guidance on fair value measurements. In part, this guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The guidance establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. MACC's practices reflect recent authoritative guidance that requires reporting entities to make new disclosures about recurring and non recurring fair-value measurements including significant transfers into and out of Level I and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. MACC also follows FASB's recent clarification of existing fair-value measurement disclosure guidance about the level of disaggregation, inputs and valuation techniques.

MACC frequently makes investments in separate debt, equity and mezzanine instruments in the same portfolio company. Most of these companies also have senior secured debt from unaffiliated commercial lenders. The investment securities vary in security and seniority of payment, whether the company makes scheduled payments or the instruments are paid on a sale of the company. Valuation takes into account the value of the portfolio company as a whole, and the relative value of individual securities within that portfolio company's capital structure. Generally, MACC exits a portfolio company when the entire company is sold. When a portfolio company is sold, following payment of senior debt, the most recently issued debt of that company generally has the most security or seniority, followed by previously issued debt, then preferred equity, with common stock having the least seniority. Unrealized depreciation is therefore applied to equity securities first, then to the individual preferred and debt securities based on their seniority/security in the capital structure. In addition, while valuations takes into account the interest rate on debt securities, the factors discussed above significantly impact value in addition to the contracted rate.

MACC updates its schedules of investments with the most current information available at the date of the report. In certain instances a debt instrument may be due, but cannot be paid due to senior debt covenants. While extension terms of the notes may be in negotiation, these negotiations may not be complete as of the date of the report. These same instruments may retain value as the principal amount, and all accrued interest, may be paid with priority over other interests in the company. Similarly, because of the senior commercial loan covenants or company

performance, the investor group and a portfolio company may have agreed to defer interest payments, but the value of the instrument remains based on the company value and priority of the instrument in the capital structure.

Taking these factors into account, MACC's investment valuations are based on industry specific information and earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples obtained from third party sources, like-transactions, as well as contractual provisions such as investor put rights.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate debt and less liquid and restricted equity securities.

Level III – Pricing inputs are unobservable for the investments and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation and are based on the Board of Director’s own assumptions about the assumptions that a market participant would use, including inputs derived from extrapolation and interpolation that are not corroborated by observable market data. Investments that are included in this category generally include corporate private equity.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. MACC’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

All of MACC’s investments at June 30, 2010 were classified and disclosed under the Level III category. Investments are stated at fair value as determined by the Board of Directors according to the procedures of MACC’s Valuation Policy. Securities are valued individually as of the end of each quarter of each fiscal year and as of the end of each fiscal year. Interest-bearing securities are carried at the approximate amount of fair value. Loan valuation determinations take into account portfolio companies’ financial condition, outlook, payment histories and other factors. Equity security valuations take into account the following factors, among others: the portfolio company’s performance, the prospects of a portfolio company’s future equity financing and the character of participants in such financing, and the utilization of various financial measures, including cash flow multiples, as appropriate. If a portfolio company appears likely to discontinue operations, a liquidation valuation technique may be employed. The Board of Directors also considers credit market conditions, and the risks and uncertainties associated with those conditions in determining the values of its portfolio securities. Valuations established by the Board of Directors are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of portfolio assets, and these favorable or unfavorable differences could be material.

The following tables present the investments at fair value as of June 30, 2010 and September 30, 2009 by type of investment:

| Fair Value Based on | Fair Value Measurement as of June 30, 2010 | | |
|----------------------|--|------------------------------|-------|
| | Corporate Private Debt | Corporate Private Equity (1) | Total |
| Investment Level III | \$ 6,111,726 | \$ 5,568,276 | 100% |

(1) represents \$1,855,972 in preferred shares; \$2,597,366 in common shares; and \$1,114,938 in membership interests.

Fair Value Measurement as of September 30, 2009

| Fair Value Based on | Corporate Private Debt | Corporate Private Equity (1) | Total |
|----------------------|---------------------------|---------------------------------|-------|
| Investment Level III | \$ 7,111,912 | \$ 4,663,360 | 100% |

(1) represents \$3,074,045 in preferred shares; \$817,925 in common shares; and \$771,390 in membership interests.

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The following tables provide a roll-forward in the changes in fair value for the three month and nine month periods ending June 30, 2010 and 2009 for all investments which MACC has determined using unobservable (Level III) factors.

| For the three months ended June 30, 2010 | | Total |
|---|----------|--------------|
| Balance, March 31, 2010 | | \$10,865,502 |
| Purchases (Debt Repayment) | | |
| Portrait Displays, Inc. | (12,089) | |
| Total Purchases (Debt Repayment) | | (12,089) |
| Unrealized Gain (Loss) | | |
| Aviation Manufacturing Group, LLC | 172,802 | |
| Feed Management Systems, Inc. | (26,963) | |
| Magnum Systems, Inc. | 437,680 | |
| Monitronics International, Inc. | 243,070 | |
| Total Unrealized Gain (Loss) | | 826,589 |
| Balance, June 30, 2010 | | \$11,680,002 |
| The amount of total gains (losses) for the period included on the statement of operations attributable to changes in unrealized gains/losses relating to investments still held at the reporting date | | 826,589 |

| For the three months ended June 30, 2009 | | Total |
|--|-------------|--------------|
| Balance, March 31, 2009 | | \$13,606,009 |
| Purchases (Debt Repayment) | | |
| Central Fiber Corporation | (258,222) | |
| Handy Industries, LLC | 33,687 | |
| MainStream Data, Inc. | (100,056) | |
| Portrait Displays, Inc. | (28,075) | |
| SMWC Acquisition Co., Inc | (24,475) | |
| Total Purchases (Debt Repayment) | | (377,141) |
| Realized Loss | | |
| MainStream Data, Inc. | (99,992) | |
| Phonex Broadband Corporation | (1,155,000) | |
| Total Realized Loss | | (1,254,992) |
| Unrealized Gain (Loss) | | |
| Aviation Manufacturing Group, LLC | (215,520) | |
| Detroit Tool Metal Products Co. | (321,973) | |
| Handy Industries, LLC | (33,688) | |

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| | | |
|---|-----------|--------------|
| Linton Truss Corporation | (30,000) | |
| M.A. Gedney Company | (80,000) | |
| Magnum Systems, Inc. | (250,000) | |
| Morgan Ohare, Inc. | (216,667) | |
| Phonex Broadband Corporation | 1,154,999 | |
| Spectrum Products, LLC | 432,706 | |
| Superior Holding, Inc. | (274,577) | |
| Total Unrealized Gain (Loss) | | 165,280 |
| Balance, June 30, 2009 | | \$12,139,156 |
| The amount of total gains (losses) for the period included on the statement of operations attributable to changes in unrealized gains/losses relating to investments still held at the reporting date | | 165,280 |

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| For the nine months ended June 30, 2010 | Total |
|---|--------------|
| Balance, September 30, 2009 | \$11,775,272 |
| Purchases (Debt Repayment) | |
| Detroit Tool Metal Products Co. | 33,342 |
| M.A. Gedney Company | (76,000) |
| Magnum Systems, Inc. | (143,541) |
| Portrait Displays, Inc. | (35,381) |
| SMWC Acquisition Co., Inc. | 29,544 |
| Superior Holding, Inc. | 39,000 |
| Total Purchases (Debt Repayment) | (153,036) |
| Unrealized Gain (Loss) | |
| Aviation Manufacturing Group, LLC | 343,548 |
| Feed Management Systems, Inc. | (468,099) |
| Handy Industries, LLC | (67,041) |
| Linton Truss Corporation | (75,035) |
| M.A. Gedney Company | 75,999 |
| Magnum Systems, Inc. | 637,680 |
| Monitronics International, Inc. | 243,070 |
| Portrait Display, Inc. | (132,355) |
| Pratt-Read Corporation | (1) |
| Superior Holding, Inc. | (500,000) |
| Total Unrealized Gain (Loss) | 57,766 |
| Balance, June 30, 2010 | \$11,680,002 |
| The amount of total gains (losses) for the period included on the statement of operations attributable to changes in unrealized gains/losses relating to investments still held at the reporting date | 57,766 |

| For the nine months ended June 30, 2009 | Total |
|---|--------------|
| Balance, September 30, 2008 | \$14,501,851 |
| Purchases (Debt Repayment) | |
| Central Fiber Corporation | (258,222) |
| Handy Industries, LLC | 100,565 |
| Superior Holding, Inc. | 39,000 |
| Linton Truss Corporation | 20 |
| Portrait Displays, Inc. | (42,292) |
| MainStream Data, Inc. | (100,056) |
| Morgan Ohare, Inc. | (57,292) |
| SMWC Acquisition Co., Inc. | (73,425) |
| Total Purchases (Debt Repayment) | (391,702) |

Realized Loss

| | |
|------------------------------|-------------|
| Kwik-Way Products, Inc. | (768,610) |
| MainStream Data, Inc. | (99,992) |
| Phonex Broadband Corporation | (1,155,000) |

| | | |
|---|-----------|--------------|
| Total Realized Loss | | (2,023,602) |
| Unrealized Gain (Loss) | | |
| Aviation Manufacturing Group, LLC | (215,520) | |
| Detroit Tool Metal Products Co. | (321,973) | |
| Portrait Display, Inc. | 324,050 | |
| Kwik-Way Products, Inc. | 768,610 | |
| Handy Industries, LLC | (278,492) | |
| Linton Truss Corporation | (70,000) | |
| M.A. Gedney Company | (70,000) | |
| Magnum Systems, Inc. | (250,000) | |
| Mainstream Data, Inc. | (24,951) | |
| Morgan Ohare, Inc. | (216,667) | |
| Phonex Broadband Corporation | 1,154,999 | |
| Pratt-Read Corporation | (905,576) | |
| Spectrum Products, LLC | 432,706 | |
| Superior Holding, Inc. | (274,577) | |
| Total Unrealized Gain (Loss) | | 52,609 |
| Balance, June 30, 2009 | | \$12,139,156 |
| The amount of total gains (losses) for the period included on the statement of operations attributable to changes in unrealized gains/losses relating to investments still held at the reporting date | | 52,609 |

Total unrealized gains and losses recorded for Level III investments are reported in Net Change in Unrealized Loss in the Statements of Operations.

(6) Note Payable

MACC has a term loan in the amount of \$4,414,721 with CRB&T as of June 30, 2010. This note is a variable interest rate note secured by a Security Agreement, Commercial Pledge Agreement and a Master Business Loan Agreement. The interest rate fluctuates daily and is the greater of the Wall Street Journal prime rate plus 0.5%, or 6%. The interest rate on the note at June 30, 2010 was 6.0%. The note has a stated maturity of January 10, 2011. The note is secured by all of MACC's assets and MACC is required to apply 80% of all cash proceeds received on the sale or liquidation of investments to pay down any amounts outstanding. Under this agreement MACC is required to comply with certain financial covenants, including maintaining a minimum liquidity of \$500,000, which commences upon the closing of the capital transaction. MACC may need to consider additional sources of financing and additional sales of investments in order to meet the current payment and operating requirements. No assurance can be given that we will be successful in our efforts to raise additional funding in the near term.

(7) Subsequent Events

On July 16, 2010 the Company, pursuant to discussions with Staff of the Division of Investment Management, withdrew the registration statement filed with the SEC on September 11, 2008 for a rights offering to raise additional funds. The Company however intends to seek additional measures for capital raising at the Annual Shareholder Meeting, targeted for September, 2010. The proceeds of such capital raising will be allocated for operating purposes,

to service the Note Payable and to begin the new investment strategy of investing in highly liquid public securities qualified for BDC investment. These additional measures include shareholder approval to sell shares of common stock below net asset value and the authorization to enter into one or more transactions to issue common stock, preferred stock, convertible preferred stock or convertible debentures, or warrants, options or rights to subscribe to, convert, or purchase common stock, which transactions produce aggregate proceeds to the Company of at least \$1,000,000 (collectively, the "capital transaction"). The Company will also seek shareholder authorization to execute a reverse stock split, under which a shareholder would receive one share for each three outstanding shares.

On July 20, 2010, the Company received a delisting determination letter from the staff of the Nasdaq Stock Market, due to the Company's failure to maintain compliance with the Nasdaq Capital Market's listing requirement that the Company maintain a minimum market value of public shares of \$1,000,000. The rule provides the Company 180 calendar days to regain compliance. If at any time during the 180 day period the Company's

minimum market value of public shares close at \$1,000,000 or more for ten (10) consecutive days, Nasdaq will deliver written confirmation that the Company is in compliance with the rule and the matter will be closed.

The Company completed the sale of 540,551 common shares and 674,309 Series A Preferred shares of Feed Management Systems, Inc. on July 1, 2010. The sale resulted in net proceeds of \$1,288,285 to the Company. An additional \$151,007 has been placed into various escrow accounts to be released to the Company upon the satisfaction of certain conditions of the sale agreement. In addition, the Company received a dividend payment of \$126,851 from Feed Management Systems, Inc. Following completion of this sale, on July 1, 2010, the Company paid \$1,030,628 to Cedar Rapids Bank & Trust in the form of a principal payment on the outstanding note payable. Subsequent to the payment, the balance of the note payable on July 1, 2010 is \$3,384,093.

The Company evaluated all events that have occurred subsequent to June 30, 2010 through the date of the filing of this Form 10-Q, and besides the above, no subsequent events have occurred requiring disclosure in the Form 10-Q.

(8) Financial Highlights (Unaudited)

| | | For the three months ended June 30, 2010 | For the three months ended June 30, 2009 | For the nine months ended June 30, 2010 | For the nine months ended June 30, 2009 |
|---|----|---|---|--|--|
| Per Share Operating Performance (For a share of capital stock outstanding throughout the period): | | | | | |
| Net asset value, beginning of period | \$ | 2.72 | 3.75 | 3.17 | 4.23 |
| Expense from investment operations: | | | | | |
| Investment expense, net | | (0.09) | (0.04) | (0.23) | (0.17) |
| Net realized and unrealized gain (loss) on investment transactions | | 0.33 | (0.44) | 0.02 | (0.79) |
| Total from investment operations | | 0.24 | (0.48) | (0.21) | (0.96) |
| Net asset value, end of period | \$ | 2.96 | 3.27 | 2.96 | 3.27 |
| Closing bid price | \$ | 0.54 | 0.75 | 0.54 | 0.75 |
| | | For the three months ended June 30, 2010 | For the three months ended June 30, 2009 | For the nine months ended June 30, 2010 | For the nine months ended June 30, 2009 |
| Total return | | | | | |
| Net asset value basis | % | 9.00 | (12.73) | (6.45) | (22.78) |
| Market price basis | % | (21.74) | (16.67) | (32.50) | (44.85) |
| Net asset value, end of period (in thousands) | \$ | 7,306 | 8,057 | 7,306 | 8,057 |

Ratio to weighted average net assets:

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| | | | | | |
|-------------------------|---|---------|--------|---------|--------|
| Investment expense, net | % | (13.56) | (4.36) | (10.65) | (5.60) |
| Operating and income | % | 16.96 | 11.00 | 14.99 | 11.53 |
| tax expense | | | | | |

The ratios of investment expense, net to average net assets, and operating and income tax expenses to average net assets are annualized. The ratios of investment expense, net to average net assets, of operating and income tax expenses to average net assets and total return are calculated for common stockholders as a class. Total return, which reflects the annual change in net assets, was calculated using the change in net assets between the beginning of the current fiscal year and end of the current year period. An individual common stockholder's return may vary from these returns.

MACC PRIVATE EQUITIES INC.
SCHEDULE OF INVESTMENTS (UNAUDITED)
JUNE 30, 2010

Manufacturing:

| Company | Security | Percent of Net assets | Value | Cost (d) |
|---|--|--------------------------|---------------------|----------------|
| Aviation Manufacturing Group, LLC (a) | 14% debt security, due December 31, 2011 | | 616,000 | 616,000 |
| Yankton, South Dakota | 154,000 units preferred | | 154,000 | 154,000 |
| Manufacturer of flight critical parts for airplanes | Membership interest 14% note, due December 31, 2011 | | 1,114,587 77,000 | 39 77,000 |
| | | | 1,961,587 | 847,039 |
| Detroit Tool Metal Products Co. (a)(e) | 12% debt security, due December 31, 2011 (c) | | 1,371,508 | 1,912,087 |
| Lebanon, Missouri | 19,853.94 shares Series A preferred (c) | | --- | 195,231 |
| Metal stamping | 7,887.17 shares common (c) | | --- | 126,742 |
| | 8% debt security, due December 31, 2011 (c) | | 33,342 | 33,342 |
| | | | 1,404,850 | 2,267,402 |
| Handy Industries, LLC (a) | 1,015.79 units Class A1 preferred (c) | | 1 | 100,565 |
| Marshalltown, Iowa | | | | |
| Manufacturer of lifts for motorcycles, trucks and Industrial metal products | | | | |
| Linton Truss Corporation | 542.8 common shares (c) | | ---- | ---- |
| Delray Beach, Florida | 400 shares Series 1 preferred (c) | | 1 | 40,000 |
| Manufacturer of residential roof and Floor truss systems | 3,411.88 common shares (c) | | --- | 36 |
| | | | 1 | 40,036 |
| Magnum Systems, Inc. (a) | 12% debt security, due November 1, 2011 | | 430,622 | 430,622 |
| Parsons, Kansas | 48,038 common shares | | 48,038 | 48,038 |
| Manufacturer of industrial bagging equipment | 292,800 shares preferred Warrant to purchase 56,529 common shares | | 304,512 968,245 | 304,512 565 |

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| | | | |
|---|--|-----------|-----------|
| | | 1,751,417 | 783,737 |
| Spectrum Products, LLC (b) | | | |
| | 13% debt security, due January 1, 2011 (c) | 1,077,649 | 1,077,649 |
| Missoula, Montana | 385,000 units Series A preferred (c) | 385,000 | 385,000 |
| Manufacturer of equipment for the swimming pool industry | Membership interest | 351 | 351 |
| | 35,073.50 units Class B preferred (c) | 47,355 | 47,355 |
| | | 1,510,355 | 1,510,355 |
| Superior Holding, Inc. (a) | | | |
| | 6% debt security, due April 1, 2013(c) | 68,727 | 780,000 |
| Wichita, Kansas | Warrant to purchase 11,143 common shares (c) | 1 | 1 |
| Manufacturer of industrial and commercial boilers and shower doors, frames and enclosures | 6% debt security, due April 1, 2013(c) | 221,000 | 221,000 |
| | 121,457 common shares (c) | --- | 121,457 |
| | 6% debt security, due April 1, 2013(c) | 308,880 | 308,880 |
| | 312,000 common shares (c) | --- | 3,120 |
| | 12% debt security, due April 1, 2013 | 39,000 | 39,000 |
| | 12% debt security, due April 1, 2013 | 39,000 | 39,000 |
| | | 676,608 | 1,512,458 |

MACC PRIVATE EQUITIES INC.
 SCH SCHEDULE OF
 INVESTMENTS CONTINUED
 (UNAUDITED)
 JUNE 30, 2010

| Manufacturing Continued: Company | Security | Percent of Net assets | Value | Cost (d) |
|---|--|--------------------------|---------------------------------|-----------------------------------|
| Total manufacturing | | 62% | 7,304,819 | 7,061,592 |
| Service: | | | | |
| Monitronics International, Inc. Dallas, Texas Provides home security systems monitoring services | 73,214 common shares | | 682,354 | 54,703 |
| Morgan Ohare, Inc. (b) Addison, Illinois Fastener plating and heat treating | 0% debt security, due January 1, 2011 (c) 10% debt security, due January 1, 2011 57 common shares | | 900,000 191,666 1 | 1,125,000 239,583 1 |
| | | | 1,091,667 | 1,364,584 |
| SMWC Acquisition Co., Inc. (a) Kansas City, Missouri Steel warehouse distribution and Processing | 12% debt security due September 30, 2011 145,397 shares Series A preferred | | 220,000 290,794 510,794 | 220,000 290,794 510,794 |
| Total Service | | 20% | 2,284,815 | 1,930,081 |
| Technology and Communications: | | | | |
| Feed Management Systems, Inc. (a) Brooklyn Center, Minnesota | 540,551 common shares 674,309 shares Series A preferred (c) | | 898,728 674,309 1,573,037 | 1,327,186 674,309 2,001,495 |

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| | | | |
|---|--|----------------|----------------|
| Batch feed software and systems | | | |
| And B2B internet services | | | |
| Portrait Displays, Inc. Pleasanton, California | 10% debt security, due April 1, 2012 Warrant to purchase 39,400 common shares | 517,331 --- | 649,686 --- |
| Designs and markets pivot enabling software for LCD computer monitors | | | |
| Total technology and communications | | 18% | 2,090,368 |
| | | | 2,651,181 |
| | | | 11,680,002 |
| | | \$ | 11,642,854 |

- (a) Affiliated company. Represents ownership of greater than 5% to 25% of the outstanding voting securities of the issuer, and is or was an affiliate of MACC, as defined in the Investment Company Act of 1940, at or during the period ended June 30, 2010.
- (b) Controlled company. Represents ownership of greater than 25% of the outstanding voting securities of the issuer, and is or was a controlled affiliate of MACC as defined in the Investment Company Act of 1940 at or during the period ended June 30, 2010.
- (c) Presently non-income producing.
- (d) For all debt securities presented, the cost is equal to the principal balance.
- (e) During the three month period ended December 31, 2009, the 12% debt security held with Detroit Tool Metal Products Co. was restructured and extended. As part of this restructuring previously accrued and unpaid interest in the amount of \$439,314 has been added to the principal. As consideration for the restructuring \$101,265 was also added to the principal debt due to MACC, representing interest and penalty fees in exchange for the restructuring.

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS.

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

This section of the Quarterly Report on Form 10-Q for MACC Private Equities Inc. ("MACC" or "we" or "us") contains forward-looking statements. All statements in this Quarterly Report on Form 10-Q, 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," "anticipates," "believes," "estimates," "predicts," "intends," "targets," "potential," and "continue," or the negative of these other similar words. Examples of forward-looking statements contained in this Quarterly Report on Form 10-Q include statements regarding MACC's:

- ability to continue as a going concern;
- ability to pay down debt;
- ability to meet cash flow requirements;
- 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;
- industry trends; and
- ability to exit the currently held investments

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, as disclosed in MACC's prior Securities and Exchange Commission ("SEC") filings. These and many other factors could affect MACC's 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-Q 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”). All references to fiscal year apply to MACC’s respective fiscal years which end on September 30.

Results of Operations

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

Third Quarter Ended June 30, 2010 Compared to Third Quarter Ended June 30, 2009

| | For the three months ended | | | |
|--|----------------------------|-----------|-------------|-----------|
| | 2010 | June 30, | 2009 | Change |
| Total investment income | \$ | 56,330 | 152,445 | (96,115) |
| Total operating expenses | | (279,788) | (252,557) | (27,231) |
| Investment expense, net | | (223,458) | (100,112) | (123,346) |
| Net realized gain (loss) on investments | | --- | (1,240,803) | 1,240,803 |
| Net change in unrealized appreciation/ depreciation on investments and other assets | | 826,589 | 165,280 | 661,309 |
| Net gain (loss) on investments | | 826,589 | (1,075,523) | 1,902,112 |
| Net change in net assets from operations | \$ | 603,131 | (1,175,635) | 1,778,766 |
| Net asset value per share: | | | | |
| Beginning of period | \$ | 2.72 | 3.75 | |
| End of period | \$ | 2.96 | 3.27 | |

Total Investment Income

During the current fiscal year third quarter, total investment income was \$56,330 a decrease of \$96,115, or 63%, from total investment income of \$152,445 for the prior year third quarter. In the current year third quarter as compared to the prior year third quarter, interest income decreased \$115,220 or 86%, and dividend income increased \$19,105, or 100%. The decrease in interest income is the net result of (i) an increase in interest income due to one follow-on debt portfolio security investment, (ii) a decrease due to repayments of principal on debt portfolio securities issued to us by four portfolio companies, and (iii) a decrease in interest income on one debt portfolio security which has been placed on non-accrual of interest status. In both the current year third quarter and the prior year third quarter, MACC received a dividend on one existing portfolio investment. The increase in dividend income in the current year was due to a larger dividend amount. MACC anticipates that its dividend income will decrease in future periods.

Net Operating Expenses

Net operating expenses for the third quarter of the current year were \$279,788, an increase of \$27,231 or 11%, as compared to net operating expenses for the prior year third quarter of \$252,557. Interest expense decreased \$17,831 or 21%, in the current year third quarter due to the decrease in the principal balance of the Note Payable to Cedar Rapids Bank & Trust Company as discussed below under Going Concern Uncertainty, Financial Condition, Liquidity

and Capital Resources.

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Management fees decreased \$13,383, or 33%, in the current year third quarter due to the investment adviser, Eudaimonia Asset Management, LLC (“EAM”), having voluntarily waived its management fee of 1% of net assets, effective in May 2009, for an indefinite period. The remaining 1% of the management fee continues to be paid to our subadviser, InvestAmerica Investment Advisors, Inc. (“InvestAmerica”). Professional fees increased \$51,315, or 94%, in the current year third quarter as compared to the prior year third quarter. The increase is primarily related to legal costs incurred in the evaluation of future capital transactions and expenses to retain listing on the NASDAQ market. Other expenses increased \$7,130, or 10%, in the current year third quarter as compared to the prior year third quarter primarily due to the expenses incurred in retaining an outside consultant to represent the Company in retaining its NASDAQ market listing status.

Investment Expense, Net

For the current year third quarter, MACC recorded investment expense, net of \$223,458, as compared to investment expense, net of \$100,112 during the prior year third quarter, a decrease of \$123,346, or 123%. The decrease in investment expense, net is primarily the result of the decrease in interest income.

Net Realized Gain (Loss) on Investments

During the current year third quarter, MACC had no net realized gain or loss on investments, as compared with a net loss of \$1,240,803 in the prior year third quarter. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. Under the Investment Advisory Agreement, the Investment Adviser is entitled to be paid an incentive fee, which is calculated as a percentage of the excess of our realized gains in a particular period, over the sum of net realized losses, unrealized depreciation, and operating losses during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to the Investment Adviser under the Advisory Agreement.

Effective April 29, 2008, MACC entered into an investment advisory agreement (the “EAM Advisory Agreement”) with EAM. Under the EAM Advisory Agreement, EAM earns an incentive fee which is calculated as a percentage of the excess of our realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to EAM under the EAM Advisory Agreement.

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

Net Change in Unrealized Appreciation/Depreciation of Investments

Net change in unrealized appreciation/depreciation on investments represents the change for the period in the unrealized appreciation, net of unrealized depreciation, on our total investment portfolio based on the valuation method described under “Critical Accounting Policy.”

We recorded a net change in unrealized appreciation/depreciation on investments of \$826,589 during the current year third quarter, as compared to \$165,280 during the prior year third quarter. This net change resulted from:

Unrealized appreciation in the fair value of three portfolio companies totaling \$853,552 during the current year third quarter, as compared to no unrealized appreciation during the prior year third quarter.

No reversal of unrealized appreciation during the current year third quarter, as compared to reversal of unrealized appreciation in the fair value of three portfolio companies totaling \$495,520 during the prior year third quarter.

Unrealized depreciation in the fair value of one portfolio company totaling \$26,963 during the current year third quarter, as compared to unrealized depreciation in the fair value of five portfolio companies of \$926,905 during the prior year third quarter.

No reversal of unrealized depreciation during the current year third quarter, as compared to reversal of unrealized depreciation of \$1,587,705 in two portfolio companies in the prior year third quarter.

Net Change in Net Assets from Operations

We experienced an increase of \$603,131 in net assets for the third quarter of fiscal year 2010, and the resulting net asset value per share was \$2.96 as of June 30, 2010, as compared to \$3.17 as of September 30, 2009. The increase in net asset value during the third quarter ended June 30, 2010 was primarily the result of the net change in unrealized appreciation/depreciation on investments, as described above.

As of June 30, 2010, we had two portfolio investments valued at cost, had recorded unrealized appreciation on three portfolio investments, and had recorded unrealized depreciation on seven portfolio investments. Quarterly valuations can be affected by a portfolio company's short term performance that results in increases or decreases in unrealized depreciation and unrealized appreciation for the quarter. Changes in the fair value of a portfolio security may or may not be indicative of the long term performance of the portfolio company.

Although we are not currently making investments in new portfolio companies (but may periodically make follow-on investments in the Existing Portfolio), as previously announced, our investment strategy under the EAM Advisory Agreement going forward is to make new equity investments in small-cap and micro-cap companies which qualify for investment by business development companies ("BDCs") under the 1940 Act when we have capital available. Under the Subadvisory Agreement, InvestAmerica will continue to oversee the Existing Portfolio. We will continue to prudently sell the Existing Portfolio investments and use the resulting proceeds to pay down the Note Payable, as further described below. The ability to exit the Existing Portfolio investments is affected by company performance and external factors unrelated to the portfolio companies. These factors include available credit, health of the markets in which our portfolio companies operate, inflationary expectations and pressures, commodity prices, and the general state of the economy.

Nine Months Ended June 30, 2010 Compared to Nine Months Ended June 30, 2009

| | | For the nine months ended | | |
|--|----|---------------------------|-------------|-------------|
| | | June 30, | | |
| | | 2010 | 2009 | Change |
| Total investment income | \$ | 228,296 | 445,586 | (217,290) |
| Net operating expense | | (789,449) | (866,267) | 76,818 |
| Investment expense, net | | (561,153) | (420,681) | (140,472) |
| Net realized (loss) gain on investments | | (3,063,596) | (2,009,413) | (1,054,183) |
| Net change in unrealized appreciation/ depreciation on investments and other assets | | 3,121,362 | 52,609 | 3,068,753 |
| Net loss on investments | | 57,766 | (1,956,804) | 2,014,570 |
| Net change in net assets from operations | \$ | (503,387) | (2,377,485) | 1,874,098 |

Net asset value per share:

| | | | |
|---------------------|----|------|------|
| Beginning of period | \$ | 3.17 | 4.23 |
| End of period | \$ | 2.96 | 3.27 |

Total Investment Income

During the current fiscal year nine-month period, total investment income was \$228,296 a decrease of \$217,290, or 49%, from total investment income of \$445,586 for the prior year nine-month period. In the current year nine-month period as compared to the prior year nine-month period, interest income decreased \$163,970, or 53%, and dividend income decreased \$53,320, or 39%. The decrease in interest income is the net result of (i) an increase due to one follow-on debt portfolio security investment, (ii) an increase due to one debt portfolio security paying interest which was on non-accrual of interest status, (iii) an increase due to one debt portfolio security paying interest for the year which was on non-accrual of interest status, (iv) a decrease due to repayments of principal on debt portfolio securities issued to us by three portfolio companies, (v) a decrease due to two debt portfolio securities which have been placed on non-accrual of interest status, and (vi) a decrease in interest income on one debt portfolio security which has been written off in the nine-month period of the current year. In both the current year nine-month period and the prior year nine-month period, MACC received dividends on two existing portfolio investments, however the current year dividends were smaller. MACC anticipates that its dividend income will continue to decrease in future periods.

Net Operating Expenses

Net operating expenses for the nine-month period of the current year were \$789,449, a decrease of \$76,818, or 9%, as compared to net operating expenses for the prior year nine-month period of \$866,267. Interest expense decreased \$22,359, or 10%, in the current year nine-month period due to the repayment of principal. Management fees decreased \$104,835, or 55%, in the current year nine-month period due to the investment adviser, EAM, having voluntarily waived its management fee of 1% on net assets, effective in May 2009, for an indefinite period. The remaining 1% of the management fee continues to be paid to our subadviser, InvestAmerica. Professional fees increased \$52,683, or 23%, in the current year nine-month period. The increase is primarily related to legal costs incurred in the evaluation of future capital transactions and expenses to retain listing on the NASDAQ market. Other expenses decreased \$2,307, or 1%, in the current year nine-month period as compared to the prior year nine-month period.

Investment Expense, Net

For the current year nine-month period, MACC recorded investment expense, net of \$561,153, as compared to investment expense, net of \$420,681 during the prior year nine-month period, an increase of \$140,472, or 33%. The increase in investment expense, net is the result of the decrease in investment income and the increase in investment expense described above.

Net Realized Gain on Investments

During the current year nine-month period, MACC realized a net loss of \$3,063,596 on three portfolio investments, as compared with net realized loss on investments of \$2,009,413 during the prior year nine-month period. The current period realized loss was the write-off of two portfolio investments which had been previously written down to \$1 through unrealized losses and the write down on one portfolio investment due to the restructure of the investment. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities.

Net Change in Unrealized Appreciation/Depreciation of Investments and Other Assets

Net change in unrealized appreciation/depreciation on investments represents the change for the period in the unrealized appreciation, net of unrealized depreciation, on MACC's total investment portfolio based on the valuation method described under "Critical Accounting Policy".

MACC recorded net change in unrealized appreciation/depreciation on investments of \$3,121,362 during the current year nine-month period, as compared to \$52,609 during the prior year nine-month period. This net change resulted from:

Unrealized appreciation in the fair value of three portfolio companies totaling \$1,224,298 during the current year nine-month period, as compared to no unrealized appreciation in the during the prior year nine-month period.

Reversal of unrealized appreciation in the fair value of two portfolio companies totaling \$74,641 during the current year nine-month period, as compared to reversal of unrealized appreciation in the fair value of four portfolio companies totaling \$560,471 during the prior year nine-month period.

Unrealized depreciation in the fair value of four portfolio companies of \$1,100,848 during the current year nine-month period, as compared to unrealized depreciation in the fair value of six portfolio companies of \$2,067,285 during the prior year nine-month period.

Reversal of unrealized depreciation of \$3,072,553 in three portfolio companies written-off during the current year nine-month period, as compared to reversal of unrealized depreciation of \$2,680,365 in four portfolio companies in the prior year nine-month period.

Going Concern Uncertainty, Financial Condition, Liquidity and Capital Resources

Global capital markets entered into a period of significant disruption in 2008, as evidenced by a lack of liquidity in debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk and the failure of major financial institutions. Despite actions of the United States federal government and foreign governments, these events have contributed to difficult economic conditions that are materially and adversely impacting the broader financial and credit markets and have significantly reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. These conditions could continue for a prolonged period of time or worsen in the future. While these conditions persist, we and other companies in the financial services sector may need, or may choose to access alternative markets for debt and equity capital which may only be available at a higher cost, and/or on less favorable terms and conditions. Conversely, our portfolio companies may not be able to service or refinance their debt which could materially and adversely affect our financial condition as we would experience reduced income or even losses. The inability to raise capital and the risk of portfolio company defaults may have a negative effect on our business, financial condition and results of operations.

As of June 30, 2010, our cash and money market accounts totaled \$101,165. MACC has a note payable (“Note Payable”) with Cedar Rapids Bank & Trust Company (“CRB&T”) in the amount of \$4,414,721 at June 30, 2010 that is due and payable January 10, 2011. On July 1, 2010 (as further described in footnote 7. of the financial statements), the Company completed the sale of a portfolio asset resulting in the proceeds of \$1,415,136, of which \$1,030,628 was used to pay down the Note Payable. These transactions resulted in additional working capital of \$384,508 to the Company.

Even with this most recent sale current working capital and cash will not be adequate for continued operations. MACC continues to seek additional cash through future sales of portfolio equity and debt securities. The efforts to sell investments have taken longer than initially anticipated while performance of the underlying portfolio companies in certain cases has deteriorated. The ability to liquidate positions had been adversely affected by credit conditions and the downturn in the financial markets and the global economy. MACC continues to review its current investment portfolio and evaluate potential exit opportunities meant to maximize return on initial investment.

The Company is also in the process of seeking shareholder approval to sell shares below net asset level, and the authorization to issue warrants, options or rights to acquire shares at no less than current market prices per share (with this authorization limited to no more than 25% of outstanding shares). The Company intends the new funds to be used to stabilize operating capital and to provide capital to initiate the new strategy of investing in highly liquid public securities qualified for BDC investment. If such sale and capital raising efforts are not successful, MACC may need to liquidate its current investment portfolio, to the extent possible, which could result in significant realized losses due to the current economic conditions.

The following table shows our significant contractual obligations for the repayment of the Note Payable and other contractual obligations as of June 30, 2010:

| Contractual Obligations | Payments due by period | | | | |
|-------------------------|------------------------|---------------------|--------------|--------------|-------------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Note Payable | \$ 4,414,721 | 4,414,721 | --- | --- | --- |
| Incentive Fees Payable | \$ 16,361 | 16,361 | --- | --- | --- |

Failure to pay-off, refinance or find alternative financing for the term loan could pose significant financial risks to MACC given the relative illiquid nature of the Existing Portfolio. In addition, we anticipate that our current cash and money market accounts will not be adequate enough to fund our cash flow short-fall from operations over the coming year. We will need to liquidate portfolio assets to fund the operating cash short-fall. Although management believes we will be able liquidate portfolio assets sufficient to provide funds for MACC to meet its anticipated cash requirements, there can be no assurance that MACC's cash flows from portfolio sales, operations or cash requirements will be as projected.

Portfolio Activity

With respect to the Existing Portfolio, we have invested in and lent to businesses through investments in subordinated debt (generally with detachable equity warrants), preferred stock and common stock. We, however, are not currently making investments in new portfolio companies. As of June 30, 2010, certain debt investments have expired or were near expiration. Since the quarter end, we have either restructured or continue to work toward restructuring these investments. The total portfolio value of our investments in illiquid securities was \$11,680,002 at June 30, 2010 and \$11,775,272 at September 30, 2009. During the three months ended June 30, 2010, no follow-on investments were made in existing portfolio companies.

With respect to the Existing Portfolio, we have frequently co-invested with other funds managed by InvestAmerica. When we make any co-investment with these related funds, we follow certain procedures consistent with orders of the SEC for related party co-investments to mitigate conflict of interest issues.

Critical Accounting Policy

In September 2006, the Financial Accounting Standards Board ("FASB") issued authoritative guidance for fair value measurements and disclosures which defines fair value, establishes a framework for measuring fair value and expands disclosures related to assets and liabilities measured at fair value. In February 2008, the FASB issued additional authoritative guidance for fair value measurements which delayed the effective date of the authoritative guidance for fair value measurements to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We adopted the provisions of the authoritative guidance for fair value measurements on January 1, 2008, with the exception of the application of the guidance to nonrecurring non financial assets and non-financial liabilities which we adopted on October 1, 2009.

Investments in securities that are traded in the over-the-counter market or on a stock exchange are valued by taking the average of the close (or bid price in the case of over-the-counter equity securities) for the valuation date. Restricted and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors. Among the factors considered in determining the fair value of investments are the cost of the investment; developments, including recent financing transactions, since the acquisition of the investment; financial condition and operating results of the investee; the long-term potential of the business of the investee; market interest rates for similar debt securities; overall market conditions and other factors generally pertinent to the valuation of investments. Because of the inherent uncertainty of valuation, those estimated values may differ

significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

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

Realization of the carrying value of investments is subject to future developments. Investment transactions are recorded on the trade date and identified cost is used to determine realized gains and losses.

The preparation of financial statements in conformity with GAAP requires management to estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Determination of Net Asset Value

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are subject to market risk from changes in market prices of publicly-traded equity securities held from time to time in our investment portfolio. At June 30, 2010, we had no publicly-traded equity securities in the Existing Portfolio, but, as noted elsewhere, we intend to pursue an investment strategy consisting of new equity investments in very small public companies that qualify for investment by BDCs under the 1940 Act, to the extent we are able to raise additional capital.

We currently have a portfolio of debt and equity securities for which no regular trading market exists. The fair value of these investments may not be readily determinable. We value these investments quarterly at fair value as determined in good faith under the direction of our board of directors pursuant to a valuation policy and consistently applied valuation process utilizing the input of our investment advisers and audit committee. The types of factors that may be considered in fair value pricing of these investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to more liquid securities, indices and other market related inputs, discounted cash flow and other relevant factors. Because such valuations and particularly valuations of private securities and private companies are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a readily available market for these investments existed and may differ materially from the amounts we realize on any disposition of such investments. Our net asset value could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon the disposal of such investments. In addition, decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Continued declines in prices and liquidity in the debt markets could result in substantial unrealized/realized losses, which could have a material adverse impact on our business, financial condition and results of operations.

The recent economic conditions generally and the disruptions in the capital markets over the past two years in particular have decreased liquidity, where available. The longer these conditions persist, the greater the probability that these factors could reduce our ability to effectively liquidate portfolio positions, increase our cost and

significantly limit our access to debt and equity capital, and thus continue to have an adverse effect on our operations and financial results. Many of our portfolio companies were susceptible to the economic downturn, which affected their ability to repay our loans or engage in a liquidity event, such as a sale or recapitalization.

A continued economic downturn could continue to impact some of the industries in which we invest, causing us to be vulnerable to further losses in our portfolio. Therefore, the number of our non-performing assets could increase and the fair market value of our portfolio decrease during these periods. The economic downturn has affected the availability of credit generally and may prevent us from replacing or renewing our credit facility on reasonable terms, if at all. If market instability intensifies, we may experience difficulty in raising capital.

Recent market conditions have also affected the trading price of our common stock and thus our ability to finance new investments through the issuance of equity. For the three months ended June 30, 2010, we recorded net unrealized appreciation on our portfolio of investments of \$826,589, which was attributable to the increase in fair value of our portfolio. While the current three month period reflects an upturn in our portfolio, we cannot rely on continuing increases in the value of our portfolio in that economic conditions remain in a state of uncertainty and the general illiquidity of capital markets continues.

We are also subject to financial market risks from changes in market interest rates. We currently have a outstanding Note Payable with a variable interest rate that is based on an independent index. Therefore, general interest rate fluctuations may have a materially adverse effect on our investment expense.

We are also subject to financial market risk from the short term nature of our credit facilities in combination with current market conditions and the relatively illiquid nature of our Existing Portfolio. Our Note Payable is due January 31, 2011. Given the currently challenging market environment as discussed elsewhere, we may have difficulty refinancing the Note Payable, or finding alternative sources of financing. Failure to refinance the Note Payable could result in significant financial difficulties for us including the seizure and sale of Existing Portfolio assets at prices which would likely be as prices significantly less than fair value. Further, the cost of financing could be significantly more costly which could have a material impact on our financial condition.

Item 4. Controls and Procedures

As of the end of the period covered by this report, in accordance with Item 307 of Regulation S-K promulgated under the 1933 Act, our Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”) have conducted evaluations of our disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Exchange Act, the term “disclosure controls and procedures” means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed our disclosure controls and procedures and have concluded that those disclosure controls and procedures were effective as of June 30, 2010. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002, each of the Certifying Officers has executed an Officer’s Certification included in this Quarterly Report on Form 10-Q.

As of June 30, 2010, there have not been any significant changes in our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

There are no items to report.

Item 1A.

Risk Factors.

There are no material changes to report from the risk factors disclosed in MACC's Annual Report on Form 10-K for the year ended September 30, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There are no items to report.

Item 3. Defaults Upon Senior Securities.

There are no items to report.

Item 4. (Removed and Reserved).

Item 5. Other Information.

On July 27, 2010, the Company's Board of Directors adopted amendments to MACC's Third Amended and Restated Bylaws, effective as of such date. The Third Amended and Restated Bylaws were amended and restated to change the number of directors from five (5) to four (4) by amending Article II, Section 1.

The foregoing is a brief description of the amendments to MACC's Third Amended and Restated Bylaws and is qualified in its entirety by reference to the full text of the Fourth Amended and Restated Bylaws.

Item 6. Exhibits.

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

- 3.1 Fourth Amended and Restated Bylaws, dated July 27, 2010.
- 31.1 Section 302 Certification of Travis T. Prentice (President and CEO).
- 31.2 Section 302 Certification of Derek J. Gaertner (CFO).
- 32.1 Section 1350 Certification of Travis T. Prentice (President and CEO).
- 32.2 Section 1350 Certification of Derek J. Gaertner (CFO).

SIGNATURES

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

MACC PRIVATE EQUITIES INC.

Date: August 16, 2010

By: /s/ Travis T. Prentice
Travis T. Prentice, President and CEO

Date: August 16, 2010

By: /s/ Derek J. Gaertner
Derek J. Gaertner, Chief Financial Officer

EXHIBIT INDEX

| Exhibit | Description | Page |
|---------|--|-----------------------|
| 3.1 | Fourth Amended and Restated Bylaws, dated July 27, 1-14 2010 | 1-14 of Ex. 3.1 |
| 31.1 | Section 302 Certification of Travis T. Prentice (CEO) | 28 |
| 31.2 | Section 302 Certification of Derek J. Gaertner (CFO) | 29 |
| 32.1 | Section 1350 Certification of Travis T. Prentice (CEO) | 30 |
| 32.2 | Section 1350 Certification of Derek J. Gaertner (CFO) | 31 |

