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MACC PRIVATE EQUITIES INC
Form 10-Q
August 14, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006
OR

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

For the transition period from ----- to -----

Commission file number 0-24412

MACC Private Equities Inc.

(Exact name of registrant as specified in its charter)

Delaware

42-1421406

(State or other jurisdiction of incorporation
or organization)

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

101 Second Street SE, Suite 800, Cedar Rapids, Iowa 52401
(Address of principal executive offices)
(Zip Code)

(319) 363-8249

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No__

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer__ Accelerated filer__ Non-accelerated filer|X|

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

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APPLICABLE ONLY TO CORPORATE ISSUERS:

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

At August 4, 2006, the registrant had issued and outstanding 2,464,621 shares of common stock.

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PART I -- FINANCIAL INFORMATION**Item 1. Financial Statements****MACC PRIVATE EQUITIES INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets**

| | June 30, 2006 (Unaudited) |
|--|---------------------------------|
| | ----- |
| Assets | |
| Loans and investments in portfolio securities, at market or fair value: | |
| Unaffiliated companies (cost of \$3,042,021 and \$5,288,757) | \$ 2,931,651 |
| Affiliated companies (cost of \$16,377,262 and \$17,406,157) | 12,894,421 |
| Controlled companies (cost of \$3,316,485 and \$3,247,063) | 3,023,202 |
| U.S. treasury bills, at cost, which approximates fair value | 2,966,764 |
| Cash and money market accounts | 2,962,870 |
| Interest receivable | 331,180 |
| Other assets | 1,339,949 |
| | ----- |
| Total assets | \$ 26,450,037 |
| | ===== |
| Liabilities and net assets | |
| Liabilities: | |
| Debentures payable | \$ 14,790,000 |
| Incentive fees payable | 566,426 |
| Accrued interest | 354,365 |
| Accounts payable and other liabilities | 197,883 |
| | ----- |
| Total liabilities | 15,442,141 |
| | ----- |
| Net assets: | |
| Common stock, \$.01 par value per share; authorized 10,000,000 shares; issued and outstanding 2,464,621 shares | 24,646 |
| Additional paid-in-capital | \$ 14,869,745 |
| Unrealized depreciation on investments | (3,886,495) |
| | ----- |
| Total net assets | 11,007,896 |
| | ----- |
| Total liabilities and net assets | \$ 26,450,037 |
| | ===== |
| Net assets per share | \$ 4.47 |
| | ===== |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | For the three months ended June 30, 2006 | For the three months ended June 30, 2005 | For mo |
|--|---|---|-----------|
| Investment income: | | | |
| Interest: | | | |
| Unaffiliated companies | 32,295 | 75,524 | |
| Affiliated companies | 126,507 | 444,716 | |
| Controlled companies | 14,299 | 85,942 | |
| Other | 59,417 | 17,904 | |
| Dividends: | | | |
| Unaffiliated companies | --- | --- | |
| Affiliated companies | 5,843 | 217,246 | |
| Processing fees | --- | --- | |
| Other | --- | 39,360 | |
| Total investment income | 238,361 | 880,692 | |
| Operating expenses: | | | |
| Interest expenses | 275,549 | 523,927 | |
| Management fees | 97,872 | 173,433 | |
| Incentive fees | (138,300) | --- | |
| Professional fees | 38,691 | 122,211 | |
| Other | 78,630 | 80,674 | |
| Total operating expenses | 352,442 | 900,245 | |
| Management fees waived | --- | (51,642) | |
| Net operating expenses | 352,442 | 848,603 | 1 |
| Investment expense, net before tax expense | (114,081) | (17,911) | |
| Income tax expense | \$ 40,000 | 50,000 | |
| Investment expense, net | \$ (154,081) | (17,911) | |
| Realized and unrealized gain (loss) on investments and other assets: | | | |
| Net realized gain (loss) on investments: | | | |
| Unaffiliated companies | \$ (705,226) | 16,557 | |
| Affiliated companies | --- | 638,657 | |
| Controlled companies | --- | --- | |
| Net change in unrealized depreciation/appreciation on investments | 1,043,716 | 1,651,887 | (3 |
| Net change in unrealized gain on other assets | 9,111 | 2,115 | |
| Net gain (loss) on investments | \$ 347,601 | 2,309,216 | (1 |
| Net change in net assets from operations | \$ 193,520 | 2,291,305 | (2 |

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See accompanying notes to unaudited condensed consolidated financial statements.

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

| | For the nine months ended June 30, 2006 ----- |
|---|--|
| Cash flows from operating activities: | |
| (Decrease) increase in net assets from operations | \$ (2,657,079) ----- |
| Adjustments to reconcile (decrease) increase in net assets from operations to net cash provided by (used in) operating activities: | |
| Net realized and unrealized loss (gain) on investments | 1,805,952 |
| Net realized and unrealized loss (gain) on other assets | 19,360 |
| Loss on litigation settlement | --- |
| Proceeds from disposition of and payments on loans and investments in portfolio securities | 5,477,447 |
| Purchases of loans and investments in portfolio securities | (287,125) |
| Change in interest receivable | (158,910) |
| Change in other assets | 1,565,938 |
| Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities | (229,098) ----- |
| Total adjustments | \$ 8,193,564 ----- |
| Net cash provided by operating activities | \$ 5,536,485 ----- |
| Cash flows from financing activities: | |
| Proceeds from issuance of note payable-related party | \$ --- |
| Debt repayment | (2,000,000) ----- |
| Net cash used in financing activities | \$ (2,000,000) ----- |
| Net increase in cash and cash equivalents | \$ 3,536,485 |
| Cash and cash equivalents at beginning of period | \$ 2,393,149 |
| Cash and cash equivalents at end of period | \$ 5,929,634 ===== |
| Supplemental disclosure of cash flow information - | |
| Cash paid during the period for interest | \$ 605,612 ===== |
| Supplemental disclosure of noncash investing and financing information - | |
| Assets received in exchange of securities | \$ 390,998 ===== |

See accompanying notes to unaudited condensed consolidated financial statements.

MACC PRIVATE EQUITIES INC.

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of MACC Private Equities Inc. (Equities) and its wholly owned subsidiary MorAmerica Capital Corporation (MACC) which have been prepared in accordance with accounting principles generally accepted in the United States of America for investment companies. All material intercompany accounts and transactions have been eliminated in consolidation.

The financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto of MACC Private Equities Inc. and its Subsidiary as of and for the year ended September 30, 2005. The information reflects all adjustments consisting of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods. The results of the interim period reported are not necessarily indicative of results to be expected for the year. The balance sheet information as of September 30, 2005 has been derived from the audited balance sheet as of that date.

(2) Critical Accounting Policy

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

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

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

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(3) Financial Highlights

| | For the nine months ended June 30, 2006 |
|---|--|
| | ----- |
| Per Share Operating Performance | |
| (For a share of capital stock outstanding throughout the period): | |
| Net asset value, beginning of period | \$ 5.54 |
| | ----- |
| Income (loss) from investment operations: | |
| Investment expense, net | (0.33) |
| Net realized and unrealized (loss) gain on investments | (0.74) |
| | ----- |
| Total from investment operations | (1.07) |
| | ----- |
| Net asset value, end of period | \$ 4.47 |
| | ===== |
| Closing market price | \$ 2.13 |
| | ===== |
| | ----- |
| | For the nine months ended June 30, 2006 |
| | ----- |
| Total return | |
| Net asset value basis | (19.44) % |
| Market price basis | (17.12) % |
| Net asset value, end of period (in thousands) | \$ 11,008 |
| Ratio to average net assets: | |
| Investment (expense) income, net | (5.77) % |
| Operating expense | 13.27 % |

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

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Manufacturing:

| Company | Security | Percent Net ass |
|---|--|--------------------|
| <p>AAMI, Inc. (a) Wichita, Kansas Manufacturer of industrial and commercial boilers and shower doors, frames and enclosures</p> | <p>12% debt security, due March 31, 2007 (c) Warrant to purchase 11,143 common shares (c) 10% debt security, due March 31, 2007 (c) 121,457 common shares (c) 12% debt security, due March 31, 2007 (c) 312,000 common shares (c)</p> | |
| <p>Aviation Manufacturing Group, LLC (a) Yankton, South Dakota Manufacturer of flight critical parts for aircraft</p> | <p>14% debt security, due October 1, 2007 (c) 154,000 units preferred Membership interest 14% note, due December 31, 2008</p> | |
| <p>Central Fiber Corporation Wellsville, Kansas Recycles and manufactures cellulose fiber products</p> | <p>12% debt security, due March 31, 2009 12% debt security, due March 31, 2009</p> | |
| <p>Detroit Tool Metal Products Co. (a) Lebanon, Missouri Metal stamping</p> | <p>14% debt security, due February 29, 2008 19,853.94 shares Series A preferred (c)</p> | |
| <p>Handy Industries, LLC (a) Marshalltown, Iowa Manufacturer of lifts for motorcycles, trucks and industrial metal products</p> | <p>12.5% debt security, due January 8, 2007 167,171 units Class B preferred (c) Membership interest</p> | |
| <p>Hicklin Engineering, L.C. (a) Des Moines, Iowa Manufacturer of auto and truck transmission and brake dynamometers</p> | <p>10% debt security, due June 30, 2007 Membership interest</p> | |
| <p>Industrial Tooling & Fabrication, LLC (a) Fort Madison, Iowa Metal stamping</p> | <p>10% debt security, due November 18, 2009 12% debt security, due November 18, 2009 12% debt security, due November 18, 2009</p> | |
| <p>Kwik-Way Products, Inc. (a) Marion, Iowa</p> | <p>2% debt security, due January 31, 2008 (c) 2% debt security, due January 31, 2008 (c)</p> | |

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| | |
|-------------------------------------|--------------------------|
| Manufacturer of automobile | 38,008 common shares (c) |
| aftermarket engine and brake repair | 29,340 common shares (c) |
| machinery | |

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED) CONTINUED...
JUNE 30, 2006

Manufacturing Continued:

| Company | Security | Percent Net ass |
|--|---|--------------------|
| | | |
| Linton Truss Corporation Delray Beach, Florida Manufacturer of residential roof and floor truss systems | 542.8 common shares (c) 400 shares Series 1 preferred (c) Warrants to purchase common shares (c) | |
| M.A. Gedney Company (a) Chaska, Minnesota Pickle Processor | 648,783 shares preferred (c) 12% debt security, due June 30, 2009 Warrant to purchase 83,573 preferred shares (c) | |
| Magnum Systems, Inc. (a) Parsons, Kansas Manufacturer of industrial bagging equipment | 12% debt security, due July 31, 2006 48,038 common shares (c) 292,800 shares preferred (c) Warrant to purchase 56,529 common shares (c) | |
| Metal Tooling Holdings, Inc. (a) Lebanon, Missouri Metal stamping | 7,887.17 common shares (c) | |
| Pratt-Read Corporation (a) Bridgeport, Connecticut Manufacturer of screwdriver shafts and handles and other hand tools | 13,889 shares Series A Preferred (c) 7,718 shares Services A preferred (c) 13% debt security, due July 26, 2006 (c) Warrants to purchase common shares (c) | |
| Simoniz USA, Inc. Bolton, Connecticut Producer of cleaning and wax products under both the Simoniz brand and private label brand names | 12% debt security, due April 1, 2008 | |
| Spectrum Products, LLC (b) Missoula, Montana | 13% debt security, due October 9, 2006 (c) 385,000 units Series A preferred (c) | |

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Manufacturer of equipment for the
swimming pool industry

Membership interest (c)
Redeemable preferred (c)

Total manufacturing

101.76%
=====

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED) CONTINUED...
JUNE 30, 2006

Service:

| Company | Security | Percent Net ass |
|---|---|--------------------|
| Concentrix Corporation (a) Pittsford, New York Provides marketing outsourcing solutions including telemarketing, fulfillment and web communications | 3,758,750 shares Series A preferred (c) 130,539 shares Series C preferred (c) 328,485 shares Series D preferred (c) 8% debt security, due July 28, 2006 | |
| FreightPro, Inc Overland Park, Kansas Internet based outsource provider of freight logistics | 18% debt security, due February 21, 2007 (c) 18% debt security, due February 15, 2007 (c) Warrant to purchase 366,177.80 common shares (c) | |
| Monitronics International, Inc. Dallas, Texas Provides home security systems monitoring services | 73,214 common shares (c) | |
| Morgan Ohare, Inc. (b) Addison, Illinois Fastener plating and heat treating | 0% debt security, due January 1, 2007 (c) 10% debt security, due January 1, 2007 57 common shares (c) 10% debt security, due January 1, 2007 10% debt security, due January 1, 2007 10% debt security, due January 1, 2007 10% debt security, due January 1, 2007 | |
| SMWC Acquisition Co., Inc. (a) Kansas City, Missouri Steel warehouse distribution and processing | 13% debt security due May 19, 2007 1,320 shares common (c) Warrant to purchase 2,200 common shares (c) 176,550 shares Series A preferred | |

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Warren Family Funeral Homes, Inc. Warrant to purchase 346.5 common shares (c)
 Topeka, Kansas
 Provider of value priced funeral
 services

Total Service

33.2
 =====

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY
 CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED) CONTINUED...
 JUNE 30, 2006

Technology and Communications:

| Company | Security | Percent Net ass |
|---|---|--------------------|
| | | |
| Feed Management Systems, Inc. (a) Brooklyn Center, Minnesota Batch feed software and systems and B2B internet services | 540,551 common shares (c) 674,309 shares Series A preferred (c) 12% debt security, due May 20, 2008 12% debt security, due August 21, 2008 Warrants to purchase 166,500 Series A preferred (c) | |
| MainStream Data, Inc. (a) Salt Lake City, Utah Content delivery solutions provider | 322,763 shares Series A preferred (c) | |
| Miles Media Group, Inc. (a) Sarasota, Florida Tourist magazine publisher | 1,000 common shares (c) 100 common options (c) | |
| Phonex Broadband Corporation Midvale, Utah Power line communications | 1,855,302 shares Series A preferred (c) | |
| Portrait Displays, Inc. Pleasanton, California Designs and markets pivot enabling software for LCD computer monitors | 8% debt security, due April 1, 2009 8% debt security, due April 1, 2012 (c) Warrant to purchase 39,400 common shares (c) | |
| SnapNames.com, Inc. Portland, Oregon Domain name management | 465,000 common shares (c) 46,500 common shares (c) | |

Total technology and communications

36.1
=====

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

This section contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Act"). Such statements are made in good faith by MACC pursuant to the safe-harbor provisions of the 1995 Act, and are identified as including terms such as "may," "will," "should," "expects," "anticipates," "estimates," "plans," or similar language. In connection with these safe-harbor provisions, MACC has identified in its Annual Report to Shareholders for the fiscal year ended September 30, 2005, important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of MACC, including, without limitation, the high risk nature of MACC's portfolio investments, the effects of general economic conditions on MACC's portfolio companies, the effects of recent or future losses on the ability of MorAmerica Capital to comply with applicable regulations of the Small Business Administration and MorAmerica Capital's ability to obtain future funding, changes in prevailing market interest rates, and contractions in the markets for corporate acquisitions and initial public offerings. MACC further cautions that such factors are not exhaustive or exclusive. MACC does not undertake to update any forward-looking statement which may be made from time to time by or on behalf of MACC.

Results of Operations

MACC's investment income includes income from interest, dividends and fees. Investment expense, net represents total investment income minus net operating expenses. The main objective of portfolio company investments is to achieve capital appreciation and realized gains in the portfolio. These gains and losses are not included in investment expense, net. However, another one of MACC's on-going goals is to reduce net investment expense. MACC is currently seeking to achieve this goal by reducing its operating expenses. MACC also earns interest on short-term investments of cash.

Third Quarter Ended June 30, 2006 Compared to Third Quarter Ended June 30, 2005

| |
|-------------------------------------|
| For the three months ended June 30, |
| 2006 |
| 2005 |
| ----- |

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| | | | |
|---|----|-----------|-----------|
| Total investment income | \$ | 238,361 | 880,692 |
| Net operating expense | | (392,442) | (898,603) |
| Income taxes | | (40,000) | (50,000) |
| | | ----- | ----- |
| Investment expense, net | | (154,081) | (17,911) |
| | | ----- | ----- |
| Net realized (loss) gain on investments | | (705,226) | 655,214 |
| Net change in unrealized depreciation/ appreciation on investments | | 1,043,716 | 1,651,887 |
| Net change in unrealized gain on other assets | | 9,111 | 2,115 |
| | | ----- | ----- |
| Net gain on investments | | 347,601 | 2,309,216 |
| | | ----- | ----- |
| Net change in net assets from operations | \$ | 193,520 | 2,291,305 |
| | | ===== | ===== |
| Net asset value: | | | |
| Beginning of period | \$ | 5.12 | 4.82 |
| | | ===== | ===== |
| End of period | \$ | 4.47 | 5.81 |
| | | ===== | ===== |

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Total Investment Income

During the current fiscal year third quarter, total investment income was \$238,361, a decrease of \$642,331, or 73%, from total investment income of \$880,692 for the prior year third quarter. In the current year third quarter as compared to the prior year third quarter, interest income decreased \$391,568, or 63%, dividend income decreased \$211,403, or 97%, and other income decreased \$39,360, or 100%. The decrease in interest income is the net result of repayments of principal on debt portfolio securities issued by thirteen portfolio companies, a decrease in interest income on four debt portfolio securities which have been placed on non-accrual of interest status, and a decrease in interest income on one debt portfolio security of which interest has been forgiven since the end of the prior year fiscal year end. In the current year third quarter, MACC received dividends on two existing portfolio investments, one of which was a distribution from a limited liability company, compared to dividend income received in the prior year third quarter from five existing portfolio companies, one of which was a distribution from a limited liability company. The decrease in other income is due to a distribution received by MACC in the prior year third quarter with respect to the insurance claim of a former MACC subsidiary against an insurance company in liquidation.

Net Operating Expenses

Net operating expenses for the third quarter of the current year were \$352,442, a decrease of \$496,161, or 58%, as compared to net operating expenses for the prior year third quarter of \$848,603. Interest expense decreased \$248,378, or 47%, in the current year third quarter due to the repayment of borrowings from the Small Business Administration ("SBA") of \$9,000,000 in the prior fiscal year and \$2,000,000 in the current year second quarter. Management fees decreased \$75,561, or 44%, in the current year third quarter due to the decrease in capital under management and a decrease in the management fee as a

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percentage of capital under management from 2.50% to 1.50%, which became effective April 30, 2005. Incentive fees decreased \$138,300, or 100%, due to the decrease in fair value of several portfolio company investments which impacted the calculation of the incentive fees earned in the current year third quarter. Incentive fees are calculated on an annual basis, but MACC accrues incentive fees expense on a quarterly basis. Accordingly, MACC's financial results for the last three months of the current fiscal year may impact the amount of incentive fee expense accrued during the third quarter of the current year. Professional fees decreased \$83,520, or 68%, in the current year third quarter primarily due to the legal expenses incurred in the prior year third quarter in connection with the change of MACC's investment advisor. Other expenses decreased \$2,044, or 3%, in the current year third quarter as compared to the prior year third quarter. The decrease in other expenses is mainly due to the timing of administrative expenses in the prior year third quarter due to the postponement of the 2005 Annual Shareholders Meeting.

Investment Expense, Net

For the current year third quarter, MACC recorded investment expense, net of \$154,081, as compared to investment expense, net of \$17,911 during the prior year third quarter. The increase in investment expense, net is the result of the decrease in investment income described above, partially offset by the decrease in operating expenses described above.

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Net Realized (Loss) Gain on Investments

During the current year third quarter, MACC recorded net realized loss on investments of \$705,226, as compared with net realized gain on investments of \$655,214 during the prior year third quarter. In the current year third quarter, MACC realized a loss of \$705,226 from the sale of one portfolio company. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. MACC's investment advisor earns an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to the investment advisor.

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

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

MACC recorded net change in unrealized appreciation/depreciation on investments of \$1,043,716 during the current year third quarter, as compared to \$1,651,887 during the prior year third quarter. This net change resulted from:

- o Unrealized appreciation in the fair value of three portfolio companies totaling \$878,355.
- o Unrealized depreciation in the fair value of five portfolio companies

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of \$459,663.

- o Reclassification of unrealized depreciation of \$625,024 relating to the sale of one portfolio company.

Net Change in Net Assets from Operations

MACC experienced a decrease of \$2,657,079 in net assets at the end of the third quarter of fiscal year 2006, and the resulting net asset value per share was \$4.47 as of June 30, 2006, as compared to \$5.54 as of September 30, 2005.

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

While MACC may periodically make follow-on investments, MACC is not currently making investments in new portfolio companies, and is instead using any excess cash generated

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from portfolio investment liquidity events to prepay MorAmerica Capital's outstanding SBA-guaranteed debentures when appropriate. MACC recorded significant reductions in its interest expense and management fees in the third quarter of the current fiscal year as a result of these prepayments.

While the economy continues to perform well, it is not even in all sectors. Portfolio companies have had to deal with high energy costs, high raw material costs, and in some cases flat or decreased sales. The growth of China and India and continued competition from imported products from Asia, Central America, and South America have made it more difficult to increase prices as commodity prices rise. Gas prices, world tensions, terrorism, and the continuing conflict in Iraq increase the uncertainty of future performance. Management believes MACC's investment portfolio may benefit from an anticipated robust market for corporate acquisitions and investments. The overall activity in the market for corporate acquisitions is strong. MACC has exited four investments in 2006 and continues to explore other potential exits.

Nine Months Ended June 30, 2006 Compared to Nine Months Ended June 30, 2005

| | For the nine months ended June 30, 2006 | 2005 | Chan |
|-------------------------|--|-------------|-------------|
| | | | |
| Total investment income | \$ 937,117 | 2,180,120 | (1,243,003) |
| Net operating expense | (1,658,884) | (2,806,303) | 1,147,419 |
| Income taxes | (110,000) | (50,000) | (60,000) |
| | | | |
| Investment expense, net | (831,767) | (676,183) | (155,584) |
| | | | |

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| | | | |
|---|----------------|-------------|-------|
| Net realized (loss) gain on investments | 1,984,114 | (1,773,869) | 3,7 |
| Net change in unrealized depreciation/ appreciation on investments | (3,790,066) | 5,148,084 | (8,93 |
| Net change in unrealized gain on other assets | (19,360) | 88,196 | (10 |
| Net (loss) gain on investments | (1,825,312) | 3,462,411 | (5,28 |
| | ----- | ----- | ----- |
| Net change in net assets from operations | \$ (2,657,079) | 2,786,228 | (5,44 |
| | ===== | ===== | ===== |
| Net asset value: | | | |
| Beginning of period | \$ 5.54 | 4.61 | |
| | ===== | ===== | |
| End of period | \$ 4.47 | 5.81 | |
| | ===== | ===== | |

Total Investment Income

During the current year nine-month period, total investment income was \$937,117, a decrease of \$1,243,003, or 57%, from total investment income of \$2,180,120 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 \$856,259, or 52%, dividend income decreased \$336,889, or 70%, processing fees decreased \$7,700, or 100%, and other income decreased \$42,155, or 100%. The decrease in interest income is the net result of repayments of principal on debt portfolio securities issued by thirteen portfolio companies, a decrease in interest income on four portfolio securities which have been placed on non-accrual of interest status, a decrease in interest income on one debt portfolio security of which interest has been forgiven since the end of the prior year fiscal year end, an increase in interest income on one debt portfolio security which made a deferred interest payment in the current year nine-month period, and the conversion of interest to stock in one portfolio company in the prior year nine-month period. In the current year nine-month period, MACC received dividends on five existing portfolio investments, two of

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which were distributions from limited liability companies, as compared to dividend income received in the prior year nine-month period from seven existing portfolio companies, three of which were distributions from limited liability companies. The dividends in the prior year nine-month period were also larger than in the current year nine-month period. Processing fees decreased because no fees were received in the current year nine-month period, whereas MACC received a processing fee on one follow-on investment made in the prior year nine-month period. The decrease in other income is due to a distribution received by MACC in the prior year nine-month period with respect to the insurance claim of a former MACC subsidiary against an insurance company in liquidation.

Net Operating Expenses

Net operating expenses for the nine-month period of the current year were \$1,658,884, a decrease of \$1,147,419, or 41%, as compared to net operating expenses for the prior year nine-month period of \$2,806,303. Interest expense decreased \$645,225, or 41%, in the current year nine-month period due to the repayment of borrowings from the SBA of \$9,000,000 in the prior fiscal year and \$2,000,000 in the current year nine-month period. Management fees decreased \$329,347, or 50%, in the current year nine-month period due to the decrease in capital under management and a decrease in the management fee as a percentage of capital under management from 2.50% to 1.50%, which became effective April 30, 2005. Incentive fees increased by \$5,011 or 100%, because no incentive fees were

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earned in the prior year nine-month period. Incentive fees are calculated on an annual basis, but MACC accrues incentive fees expense on a quarterly basis. Accordingly, MACC's financial results for the last three months of the current fiscal year may impact the amount of incentive fee expense accrued during the nine-month period of the current year. Professional fees decreased \$282,055, or 64%, in the current year nine-month period primarily due to the legal expenses incurred in the prior year nine-month period from the arbitration proceedings related to the sale of a former portfolio company which has been settled, legal expenses from a lawsuit related to another portfolio company which has been settled, and legal expenses incurred in the change of MACC's investment advisor.

Investment Expense, Net

For the current year nine-month period, MACC recorded investment expense, net of \$831,767, as compared to investment expense, net of \$676,183 during the prior year nine-month period. The increase in investment expense, net is the result of the decrease in investment income, partially offset by the decrease in operating expenses described above.

Net Realized (Loss) Gain on Investments

During the current year nine-month period, MACC recorded net realized gain on investments of \$1,984,114, as compared with net realized loss on investments of \$1,773,869 during the prior year nine-month period. In the current year nine-month period, MACC realized gains of \$1,987,604 from the sale of one portfolio company, \$667,803 from the sale of warrant shares in two other portfolio companies, \$33,933 on two previously sold portfolio companies, and a realized loss of \$705,226 from the sale of one portfolio company. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. MACC's investment advisor earns an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net

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realized losses and unrealized depreciation during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to the investment advisor.

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

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

MACC recorded net change in unrealized appreciation/depreciation on investments of (\$3,790,066) during the current year nine-month period, as compared to \$5,148,084 during the prior year nine-month period. This net change resulted from:

Unrealized appreciation in the fair value of three portfolio companies totaling \$1,150,205.

Unrealized depreciation in the fair value of eleven portfolio companies totaling \$3,324,210.

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Reclassification of unrealized appreciation of \$1,508,206 relating to the sale of one portfolio company and \$532,879 relating to the sale of warrant shares of two portfolio companies.

Reclassification of unrealized depreciation of \$425,024 relating to sale of one portfolio company.

Financial Condition, Liquidity and Capital Resources

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

As an SBIC, MorAmerica Capital is required to comply with the regulations of the SBA (the "SBA Regulations"). These regulations include the capital impairment rules, as defined by Regulation 107.1830 of the SBA Regulations. As of June 30, 2006, the capital of MorAmerica Capital was impaired less than the 55% maximum impairment percentage permitted under SBA Regulations. MorAmerica Capital's impairment percentage was 50% at June 30, 2006. If MorAmerica Capital continues to experience negative operating results, no assurances can be given that MorAmerica Capital's impairment percentage will continue to be less than the maximum impairment percentage in future periods. If MorAmerica Capital would exceed the maximum impairment percentage in future periods, a number of events could occur which would have a material adverse affect on the financial condition, results of operations, cash flow and liquidity of MACC and MorAmerica Capital. MorAmerica Capital is also currently limited by the SBA Regulations in the amount of distributions it may make to MACC.

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As of June 30, 2006, MACC's cash and cash equivalents totaled \$5,929,634. MACC has a commitment for an additional \$6,500,000 in SBA-guaranteed debentures, which expires on September 30, 2007. In December, 2004, MorAmerica Capital and three other SBICs entered into an agreement with the SBA in connection with an arbitration settlement. As a result of the terms of this agreement, MACC does not believe that MorAmerica Capital will have access to the SBIC capital program in fiscal year 2006. In light of the agreement with SBA, at the present time MACC is not making new investments, is prudently selling portfolio companies and is using the resulting proceeds to reduce debt by prepaying SBA-guaranteed debentures when appropriate. Subject to the other risks and uncertainties described in this quarterly report, MACC believes that its existing cash and money market accounts and other anticipated cash flows will provide adequate funds for MACC's anticipated cash requirements during fiscal year 2006, including follow-on portfolio investment activities, interest payments on outstanding debentures payable, prepayments of principal on outstanding debentures payable, and administrative expenses.

Debentures payable are composed of \$14,790,000 in principal amount of SBA-guaranteed debentures issued by MACC's subsidiary, MorAmerica Capital, which mature as follows: \$1,500,000 in fiscal year 2010, \$5,835,000 in fiscal year 2011, and \$7,455,000 in fiscal year 2012. MACC anticipates that MorAmerica Capital will not be able to refinance these debentures through the SBIC capital program when they mature. The following table shows MACC's significant contractual obligations for the repayment of debt and other contractual obligations as of June 30, 2006:

| | <u>Payments due by period</u> | |
|-------------------------|-------------------------------|-----------|
| Contractual Obligations | Less than | More than |

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| | Total ----- | 1 Year ----- | 1-3 Years ----- | 3-5 Years ----- | 5 Years ----- |
|----------------------------|----------------|-----------------|--------------------|--------------------|------------------|
| SBA Debentures (1) | \$ 14,790,000 | --- | --- | 1,500,000 | 13,290,000 |
| Incentive Fees Payable (2) | \$ 99,983 | --- | --- | --- | 99,893 |

(1) On September 1, 2006, MACC will repay \$4,000,000 of SBA Debentures.

(2) Under the terms of the Incentive Fee Subscription Agreement described below under Item 5, accrued incentive fees payable to the investment advisor are subordinated to all amounts payable by MorAmerica Capital to the SBA, including outstanding SBA-guaranteed debentures, and any losses the SBA may incur in connection with the settlement of arbitration proceedings occurring in late 2004.

MACC currently anticipates that it will rely primarily on its current cash and cash equivalents and its cash flows from operations to fund its cash requirements during fiscal year 2006. Although management believes these sources will provide sufficient funds for MACC to meet its fiscal year 2006 investment level objective and other anticipated cash requirements, there can be no assurances that MACC's cash flows from operations will be as projected, or that MACC's cash requirements will be as projected.

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Portfolio Activity

MACC's primary business is investing in and lending to businesses through investments in subordinated debt (generally with detachable equity warrants), preferred stock and common stock. MACC, however, is not currently making new investments. The total portfolio value of investments in publicly and non-publicly traded securities was \$18,849,274 at June 30, 2006 and \$25,845,548 at September 30, 2005. During the three months ended June 30, 2006, MACC invested \$183,800 in follow-on investments in three existing portfolio companies. As noted above, MACC does not expect to make any investments in new portfolio companies during fiscal year 2006, but may invest up to \$500,000 in follow-on investments in existing portfolio companies, subject to further adjustment based on current economic and operating conditions.

MACC frequently co-invests with other funds managed by MACC's investment advisor. When it makes any co-investment with these related funds, MACC follows certain procedures consistent with orders of the Securities and Exchange Commission for related party co-investments to reduce or eliminate conflict of interest issues. All of the \$183,800 invested during the current year third quarter represented co-investments with funds managed by MACC's investment advisor.

Critical Accounting Policy

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

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

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

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

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Determination of Net Asset Value

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

MACC is subject to market risk from changes in market interest rates that affect the fair value of MorAmerica Capital's debentures payable determined in accordance with Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments. The estimated fair value of MorAmerica Capital's outstanding debentures payable at June 30, 2006, was \$15,223,000, with a cost of \$14,790,000. Fair value of MorAmerica Capital's outstanding debentures payable is calculated by discounting cash flows through estimated maturity using a SBA borrowing rate currently available (6.4% at June 30, 2006) for debt of similar original maturity. None of MorAmerica Capital's outstanding debentures payable are publicly traded. Market risk is estimated as the potential increase in fair value resulting from a hypothetical 0.5% decrease in interest rates. Actual results may differ.

| ----- | |
|----------------------------------|---------------|
| June 30, 2006 | |
| ----- | |
| Fair Value of Debentures Payable | \$ 15,223,000 |
| Amount Above Cost | \$ 433,000 |
| Additional Market Risk | \$ 307,000 |
| ----- | |

Item 4. Controls and Procedures

As of the end of the period covered by this report, in accordance with Item 307 of Regulation S-K promulgated under the Securities Act of 1933, as amended, the Chief Executive Officer and Chief Financial Officer of MACC (the "Certifying Officers") have conducted evaluations of MACC's disclosure controls and

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procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed MACC's disclosure controls and procedures and have concluded that those disclosure controls and procedures are effective as of the date of

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

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

There are no items to report.

Item 1A. Risk Factors.

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

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

There are no items to report.

Item 3. Defaults Upon Senior Securities.

There are no items to report.

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

There are no items to report.

Item 5. Other Information.

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As previously reported, the SBA required that MorAmerica Capital enter into a subordination agreement effective July 21, 2005, among it, InvestAmerica Investment Advisors, Inc. ("InvestAmerica") and the SBA (the "Subordination Agreement") as a condition to the SBA's approval of the investment advisory agreement between InvestAmerica and MorAmerica Capital (the "Advisory Agreement"). The Subordination Agreement provides that MorAmerica Capital's payment to InvestAmerica, and InvestAmerica's receipt of, incentive fees are subordinated to MorAmerica Capital's repayment of all obligations owing to the SBA. Those obligations include the repayment of all outstanding SBA debentures and MorAmerica Capital's agreement, along with other SBA licenses, to reimburse the SBA for any losses the SBA may incur in connection with the settlement of an arbitration proceeding which was concluded in late 2004 (collectively, the "Obligations"). The Subordination Agreement provides that: (i) MorAmerica Capital will not pay InvestAmerica incentive fees under the Advisory Agreement unless and until the Obligations are satisfied, and (ii) to the extent (A) incentive fees have been escrowed under the Advisory Agreement because MorAmerica Capital's capital has been impaired as provide in Section 5.2(c)(ii) of the Advisory Agreement, and (B) MorAmerica Capital is delinquent in repaying the SBA any amounts respecting SBA debentures, the SBA may require MorAmerica Capital to pay any so escrowed funds to the SBA to satisfy any arrearage respecting SBA debentures. The Subordination Agreement does not, however, affect: (i) InvestAmerica's ability to earn incentive fees under the Advisory Agreement, (ii) MorAmerica Capital's payment to InvestAmerica of management fees under the Advisory Agreement, or (iii) any other terms of the Advisory Agreement.

Item 6. Exhibits.

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

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

SIGNATURES

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

MACC PRIVATE EQUITIES INC.

Date: 8/10/06 By: /s/ David R. Schroder

David R. Schroder, President

Date: 8/10/06 By: /s/ Robert A. Comey

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Robert A.Comey, Chief Financial Officer

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EXHIBIT INDEX

| <u>Exhibit</u> | <u>Description</u> |
|----------------|---|
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