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 | 42-1421406 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (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.

Large accelerated filer £ Accelerated filer £ Non-accelerated filer R 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 R

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

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

MACC PRIVATE EQUITIES INC.

Notes to Unaudited Condensed Financial Statements

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(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 hierarchal 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 Measurement as of June 30, 2010 | | |
|---|---|---|---|
| Fair Value Based on | 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.

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) | |

| | | |
|---|---|---|
| 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 |

| 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:

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

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 | Membership interest | | 1,114,587 | 39 |
| airplanes | 14% note, due December 31, 2011 | | 77,000 | 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 | 3,411.88 common shares (c) | | --- | 36 |
| Floor truss systems | | | 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 | 292,800 shares preferred | | | |
| bagging equipment | Warrant to purchase 56,529 | | 304,512 | 304,512 |
| | common shares | | 968,245 | 565 |

| | | | |
|---|---|---|---|
| | | 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 | Membership interest | 351 | 351 |
| swimming pool industry | 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 | 6% debt security, due April 1, 2013(c) | 221,000 | 221,000 |
| commercial boilers and shower | 121,457 common shares (c) | --- | 121,457 |
| doors, frames and enclosures | 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 |

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

| | | | |
|---|---|---|---|
| Batch feed software and systems | | | |
| And B2B internet services | | | |
| | | | |
| Portrait Displays, Inc. | 10% debt security, due April 1, 2012 | 517,331 | 649,686 |
| Pleasanton, California | Warrant to purchase 39,400 common shares | --- | --- |
| Designs and markets pivot enabling software for LCD | | 517,331 | 649,686 |