

MACC PRIVATE EQUITIES INC  
Form 10-Q  
May 17, 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 March 31, 2010

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

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

Commission file number 0-24412

MACC PRIVATE EQUITIES INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

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

580 Second Street; Suite 102, Encinitas, California 92024  
(Address of principal executive offices)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

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PART FINANCIAL INFORMATION

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## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

## MACC PRIVATE EQUITIES INC.

Condensed Balance Sheets  
(Unaudited)

|   | March 31, 2010       | September 30,<br>2009 |
|---|----------------------|-----------------------|
| <b>Assets</b>   |                      |                       |
| Cash and cash equivalents   | \$ 112,054           | 173,521               |
| Loans and investments in portfolio securities, at market or fair value:   |                      |                       |
| Unaffiliated companies (cost of \$756,484 and \$779,807)  | 968,705              | 1,199,388             |
| Affiliated companies (cost of \$8,023,489 and \$10,664,161)   | 7,294,774            | 7,973,862             |
| Controlled companies (cost of \$2,874,939 and \$2,874,939)  | 2,602,023            | 2,602,022             |
| Interest receivable   | 58,681               | 303,656               |
| Other assets  | 255,933              | 264,070               |
| <b>Total assets</b>   | <b>\$ 11,292,170</b> | <b>12,516,519</b>     |
| <b>Liabilities and net assets</b>   |                      |                       |
| <b>Liabilities:</b>   |                      |                       |
| Notes payable   | 4,424,392            | 4,618,659             |
| Incentive fees payable  | 16,361               | 16,361                |
| Accounts payable and other liabilities  | 148,547              | 72,111                |
| <b>Total liabilities</b>  | <b>4,589,300</b>     | <b>4,707,131</b>      |
| <b>Net assets:</b>  |                      |                       |
| Common stock, \$.01 par value per share; authorized 10,000,000 shares;<br>issued and outstanding 2,464,621 shares | 24,646               | 24,646                |
| Additional paid-in-capital  | 6,927,086            | 10,328,377            |
| Unrealized depreciation on investments  | (248,862 )           | (2,543,635 )          |
| <b>Total net assets</b>   | <b>6,702,870</b>     | <b>7,809,388</b>      |
| <b>Total liabilities and net assets</b>   | <b>\$ 11,292,170</b> | <b>12,516,519</b>     |
| <b>Net assets per share</b>   | <b>\$ 2.72</b>       | <b>3.17</b>           |

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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

|   | For the three<br>months ended<br>March 31,<br>2010 | For the three<br>months ended<br>March 31,<br>2009 | For the six<br>months ended<br>March 31,<br>2010 | For the six<br>months ended<br>March 31,<br>2009 |
|---|--|--|--|--|
| <b>Investment income:</b>   |  |  |  |  |
| <b>Interest</b>   |  |  |  |  |
| Unaffiliated companies  | \$ 16,643  | 7,843  | 33,579   | 15,829   |
| Affiliated companies  | 53,719   | 60,152   | 111,077  | 146,975  |
| Controlled companies  | 5,990  | 5,990  | 223,980  | 12,778   |
| Loss on interest receivable   | ---  | ---  | (241,843 )                                       | ---  |
| Other   | 113  | 35   | 231  | 192  |
| <b>Dividends</b>  |  |  |  |  |
| Affiliated companies  | 2,310  | 7,743  | 44,942   | 117,367  |
| Other income  | ---  | ---  | ---  | ---  |
| <b>Total investment income</b>  | <b>78,775</b>                                      | <b>81,763</b>                                      | <b>171,966</b>                                   | <b>293,141</b>                                   |
| <b>Operating expenses:</b>  |  |  |  |  |
| Interest expenses   | 67,811   | 74,962   | 138,874  | 151,536  |
| Management fees   | 28,746   | 76,321   | 59,812   | 151,264  |
| Professional fees   | 84,996   | 102,365  | 175,961  | 159,558  |
| Other   | 65,056   | 66,664   | 135,014  | 151,352  |
| <b>Total operating expenses</b>   | <b>246,609</b>                                     | <b>320,312</b>                                     | <b>509,661</b>                                   | <b>613,710</b>                                   |
| <b>Investment expense, net</b>  | <b>(167,834 )</b>                                  | <b>(238,549 )</b>                                  | <b>(337,695 )</b>                                | <b>(320,569 )</b>                                |
| <b>Realized and unrealized (loss) gain on investments and other assets:</b> |  |  |  |  |
| <b>Net realized gain (loss) on investments:</b>                             |  |  |  |  |
| Unaffiliated companies  | ---  | (768,610 )   | ---  | (768,610 )                                       |
| Affiliated companies  | (3,063,596)  | ---  | (3,063,596)                                      | ---  |
| Net change in unrealized appreciation/depreciation on investments           | 2,618,444  | (381,771 )   | 2,294,773  | (112,671 )                                       |
| <b>Net loss on investments</b>  | <b>(445,152 )</b>                                  | <b>(1,150,381)</b>                                 | <b>(768,823 )</b>                                | <b>(881,281 )</b>                                |
| <b>Net change in net assets from operations</b>                             | <b>\$ (612,986 )</b>                               | <b>(1,388,930)</b>                                 | <b>(1,106,518)</b>                               | <b>(1,201,850)</b>                               |

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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

|   | For the six<br>months ended<br>March 31, 2010 | For the six months<br>ended March 31, 2009 |
|---|---|--|
| Cash flows (used in) from operating activities:   |   |  |
| Net change in net assets from operations  | \$ (1,106,518 )                               | (1,201,850 )                               |
| 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  | 739,279                                       | 881,281                                    |
| Proceeds from disposition of and payments on loans and investments in portfolio securities                                | 242,834                                       | 120,459                                    |
| Purchases of loans and investments in portfolio securities  | (72,342 )                                     | (105,898 )                                 |
| Change in interest receivable   | 244,975                                       | 469  |
| Change in other assets  | 8,136   | (4,895 )                                   |
| Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities                       | 76,436  | 46,813                                     |
| Net cash provided by (used in) operating activities   | 132,800                                       | (263,621 )                                 |
| Cash flows used in financing activities:  |   |  |
| Line of credit draws  | ---   | 220,000                                    |
| Note repayment  | (194,267 )                                    | (94,440 )                                  |
| Net cash (used in) provided by financing activities   | (194,267 )                                    | 125,560                                    |
| Net decrease in cash and cash equivalents   | (61,467 )                                     | (138,061 )                                 |
| Cash and cash equivalents at beginning of period  | 173,521                                       | 145,790                                    |
| Cash and cash equivalents at end of period  | \$ 112,054                                    | 7,729                                      |
| Supplemental disclosure of cash flow information -  |   |  |
| Cash paid during the period for interest  | \$ 137,624                                    | 143,402                                    |
| Supplemental disclosure of non-cash investing and financing information -   |   |  |

|   |            |     |
|---|------------|-----|
| In-kind interest income received in the form<br>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.

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 the first quarter of fiscal 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 \$1,106,518 for the six months ended March 31, 2010 and generated net cash flow from operations of \$132,800 to fund our operating activities and financing requirements for the six months ended March 31, 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 \$4,424,392 as of March 31, 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 rights offering discussed below.

In addition to seeking additional cash through future sales of portfolio securities, we have filed our amended rights offering registration statement on April 14, 2010 and are in the process to commence a rights offering to raise funds for operating purposes and to begin our new strategy of investing in highly liquid public securities qualified for BDC investment.

(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 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. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The new and revised disclosures are required to be implemented in annual and interim reporting periods beginning after December 15, 2009. We are currently evaluating the impact of adopting this standard on MACC's

financial position and results of operations.

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(5) Fair Value Measurements

Investments

MACC follows the FASB for guidance on fair value measurements. In part, this guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The guidance establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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 1 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 March 31, 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 and in the aggregate 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.



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The following tables present the investments at fair value as of March 31, 2010 and September 30, 2009 by type of investment:

| Fair Value Based on  | Fair Value Measurement as of March 31, 2010 |                              | Total |
|----------------------|---|------------------------------|-------|
|                      | Corporate Private Debt                      | Corporate Private Equity (1) |       |
| Investment Level III | \$ 6,123,815                                | \$ 4,741,687                 | 100%  |

(1) represents \$1,855,972 in preferred shares; \$1,943,579 in common shares; and \$942,136 in membership interests.

| Fair Value Based on  | Fair Value Measurement as of September 30, 2009 |                              | Total |
|----------------------|---|------------------------------|-------|
|                      | Corporate Private Debt                          | Corporate Private Equity (1) |       |
| 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 rollforward in the changes in fair value for the three month and six month periods ending March 31, 2010 and 2009 for all investments which MACC has determined using unobservable (Level III) factors.

| For the three months ended March 31, 2010 | Total        |
|---|--------------|
| Balance, December 31, 2009                | \$11,329,901 |
| Purchases (Debt Repayment)                |              |
| M.A. Gedney Company                       | (76,000)     |
| Portrait Displays, Inc.                   | (11,791)     |
| SMWC Acquisition Co., Inc.                | 29,544       |
| Superior Holding, Inc.                    | 39,000       |
| Total Purchases (Debt Repayment)          | (19,247)     |
| Unrealized Gain (Loss)                    |              |
| Aviation Manufacturing Group, LLC         | (21,754)     |
| Handy Industries, LLC                     | (67,041)     |
| M.A. Gedney Company                       | 75,999       |
| Magnum Systems, Inc.                      | 200,000      |
| Portrait Display, Inc.                    | (132,355)    |
| Pratt-Read Corporation                    | (1)          |
| Superior Holding, Inc.                    | (500,000)    |

|                              |              |
|------------------------------|--------------|
| Total Unrealized Gain (Loss) | (445,152)    |
| Balance, March 31, 2010      | \$10,865,502 |

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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 (445,152)

For the three months ended March 31, 2009 Total

Balance, December 31, 2008 \$14,732,690

Purchases (Debt Repayment)

Handy Industries, LLC 26,751

Superior Holding, Inc. 39,000

Linton Truss Corporation 20

Morgan Ohare, Inc. (10,417)

Portrait Displays, Inc. (7,179)

SMWC Acquisition Co., Inc (24,475)

Total Purchases (Debt Repayment) 23,700

Realized Loss

Kwik-Way Products, Inc. (768,610)

Total Realized Loss (768,610)

Unrealized Gain (Loss)

Kwik-Way Products, Inc. 768,610

Handy Industries, LLC (244,805)

Pratt-Read Corporation (905,576)

Total Unrealized Gain (Loss) (381,771)

Balance, March 31, 2009 \$13,606,009

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 (1,150,381)

For the six months ended March 31, 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. (23,292)

SMWC Acquisition Co., Inc. 29,544

Superior Holding, Inc. 39,000

Total Purchases (Debt Repayment) (140,947)

Unrealized Gain (Loss)

Aviation Manufacturing Group, LLC 170,746

Feed Management Systems, Inc. (441,136)

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|                          |           |
|--------------------------|-----------|
| Handy Industries, LLC    | (67,041)  |
| Linton Truss Corporation | (75,035)  |
| M.A. Gedney Company      | 75,999    |
| Magnum Systems, Inc.     | 200,000   |
| Portrait Display, Inc.   | (132,355) |
| Pratt-Read Corporation   | (1)       |
| Superior Holding, Inc.   | (500,000) |

|   |              |
|---|--------------|
| Total Unrealized Gain (Loss)  | (768,823)    |
| Balance, March 31, 2010   | \$10,865,502 |
| 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 | (768,823)    |

|   |              |
|---|--------------|
| For the six months ended March 31, 2009 | Total        |
| Balance, September 30, 2008             | \$14,501,851 |

|                                  |          |
|----------------------------------|----------|
| Purchases (Debt Repayment)       |          |
| Handy Industries, LLC            | 66,878   |
| Superior Holding, Inc.           | 39,000   |
| Linton Truss Corporation         | 20       |
| Portrait Displays, Inc.          | (14,217) |
| Morgan Ohare, Inc.               | (57,292) |
| Superior Holding, Inc.           | (48,950) |
| Total Purchases (Debt Repayment) | (14,561) |

|                         |           |
|-------------------------|-----------|
| Realized Loss           |           |
| Kwik-Way Products, Inc. | (768,610) |
| Total Realized Loss     | (768,610) |

|                              |           |
|------------------------------|-----------|
| Unrealized Gain (Loss)       |           |
| Portrait Display, Inc.       | 324,050   |
| M.A. Gedney Company          | 10,000    |
| Kwik-Way Products, Inc.      | 768,610   |
| Handy Industries, LLC        | (244,805) |
| Pratt-Read Corporation       | (905,576) |
| Linton Truss Corporation     | (40,000)  |
| Mainstream Data, Inc.        | (24,950)  |
| Total Unrealized Gain (Loss) | (112,671) |

|   |              |
|---|--------------|
| Balance, March 31, 2009   | \$13,606,009 |
| 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 | (881,281)    |

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 \$4,424,392 with CRB&T as of March 31, 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 March 31, 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 a minimum liquidity of \$500,000 which commences upon the closing of the rights offering. 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

As discussed in Note 2, on April 14, 2010 the Company filed a registration statement with the SEC to commence a rights offering to raise funds for operating purposes and to begin our new strategy of investing in highly liquid public securities qualified for BDC investment. Further, we believe that future capital raises will be necessary and we are exploring those options. At our next annual meeting, we also expect to seek approval from our shareholders for authority to issue shares at less than net asset value.

The Company evaluated all events that have occurred subsequent to March 31, 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<br>months ended<br>March 31, 2010 | For the three<br>months ended<br>March<br>31, 2009 | For the six<br>months<br>ended March<br>31, 2010 | For the six<br>months ended<br>March<br>31, 2009 |
|---|---|--|--|--|
| <b>Per Share Operating Performance</b><br>(For a share of capital stock<br>outstanding<br>throughout the period): |   |  |  |  |
| Net asset value, beginning of<br>period   | \$ 2.97   | 4.31   | 3.17   | 4.23   |
| <b>Expense from investment<br/>operations:</b>  |   |  |  |  |
| Investment expense, net   | (0.07 )   | (0.10 )  | (0.14 )  | (0.13 )  |
| Net realized and unrealized<br>loss on investment transactions  | (0.18 )   | (0.46 )  | (0.31 )  | (0.35 )  |
| Total from investment operations  | (0.25 )   | (0.56 )  | (0.45 )  | (0.48 )  |
| Net asset value, end of period  | \$ 2.72   | 3.75   | 2.72   | 3.75   |
| Closing bid price   | \$ 0.69   | 0.90   | 0.69   | 0.90   |
|   | For the three<br>months ended<br>March 31, 2010 | For the three<br>months ended<br>March<br>31, 2009 | For the six<br>months<br>ended March<br>31, 2010 | For the six<br>months ended<br>March<br>31, 2009 |
| <b>Total return</b>   |   |  |  |  |
| Net asset value basis   | % (8.38 )                                       | (13.08 )   | (14.17 )   | (11.52 )   |
| Market price basis  | % 25.46   | 73.08  | (13.75 )   | (35.71 )   |
| Net asset value, end of period<br>(in thousands)  | \$ 6,703  | 9,233  | 6,703  | 9,233  |
| <b>Ratio to weighted average net<br/>assets:</b>  |   |  |  |  |
| Investment expense, net   | % 2.35  | (2.27 )  | 4.53   | (3.09 )  |

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|                                  |   |      |         |      |         |
|----------------------------------|---|------|---------|------|---------|
| Operating and income tax expense | % | 3.45 | (3.05 ) | 6.83 | (5.91 ) |
|----------------------------------|---|------|---------|------|---------|

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 stockholders' return may vary from these returns.

MACC PRIVATE EQUITIES INC.  
SCHEDULE OF INVESTMENTS (UNAUDITED)  
MARCH 31, 2010

| Manufacturing:  |   |                          |                    |                   |
|---|---|--------------------------|--------------------|-------------------|
| Company   | Security  | Percent of<br>Net assets | Value              | Cost (d)          |
| Aviation Manufacturing Group,<br>LLC (a)  | 14% debt security, due October 1,<br>2010                                       |                          | 616,000            | 616,000           |
| Yankton, South Dakota   | 154,000 units preferred   |                          | 154,000            | 154,000           |
| Manufacturer of flight critical<br>parts for<br>airplanes                         | Membership interest<br>14% note, due October 1, 2010                            |                          | 941,785<br>77,000  | 39,770,000        |
|   |   |                          | 1,788,785          | 847,039           |
| Detroit Tool Metal Products Co.<br>(a)(e)   | 12% debt security, due April 26, 2010<br>(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 April 26, 2010<br>(c)                                     |                          | 33,342             | 33,342            |
|   |   |                          | 1,404,850          | 2,267,402         |
| Handy Industries, LLC (a)<br>Marshalltown, Iowa                                   | 1,015.79 units Class A1 preferred (c)   |                          | 1                  | 100,565           |
| Manufacturer of lifts for<br>motorcycles, trucks and<br>Industrial metal products |   |                          |                    |                   |
| Linton Truss Corporation<br>Delray Beach, Florida                                 | 542.8 common shares (c)<br>400 shares Series 1 preferred (c)                    |                          | ----<br>1          | ----<br>40,000    |
| Manufacturer of residential roof<br>and<br>Floor truss systems                    | 3,411.88 common shares (c)  |                          | ---<br>1           | 36<br>40,036      |
| Magnum Systems, Inc. (a)<br>Parsons, Kansas                                       | 12% debt security, due November 1,<br>2011<br>48,038 common shares (c)          |                          | 430,622<br>48,038  | 430,622<br>48,038 |
| Manufacturer of industrial bagging<br>equipment                                   | 292,800 shares preferred (c)<br>Warrant to purchase 56,529 common<br>shares (c) |                          | 304,512<br>530,565 | 304,512<br>565    |
|   |   |                          | 1,313,737          | 783,737           |

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|  |  |                                  |  |
|--|--|----------------------------------|--|
| Spectrum Products, LLC (b)<br>Missoula, Montana  | 13% debt security, due January 1,<br>2011 (c)<br>385,000 units Series A preferred (c)  | 1,077,649<br>385,000             | 1,077,649<br>385,000                   |
| Manufacturer of equipment for<br>the<br>swimming pool industry                                     | Membership interest (c)<br>35,073.50 units Class B preferred (c)   | 351<br>47,355                    | 351<br>47,355                          |
|  |  | 1,510,355                        | 1,510,355                              |
| Superior Holding, Inc. (a)<br>Wichita, Kansas  | 6% debt security, due April 1, 2010(c)<br>Warrant to purchase 11,143 common<br>shares (c)  | 68,727<br>1                      | 780,000<br>1                           |
| Manufacturer of industrial and<br>commercial boilers and<br>shower<br>doors, frames and enclosures | 6% debt security, due April 1, 2010(c)<br>121,457 common shares (c)<br>6% debt security, due April 1, 2010(c)<br>312,000 common shares (c) | 221,000<br>---<br>308,880<br>--- | 221,000<br>121,457<br>308,880<br>3,120 |
|  | 12% debt security, due April 1, 2011   | 39,000                           | 39,000                                 |
|  | 12% debt security, due April 1, 2011   | 39,000                           | 39,000                                 |
|  |  | 676,608                          | 1,512,458                              |

MACC  
MACC PRIVATE EQUITIES INC.  
SCHEDULE OF INVESTMENTS CONTINUED (UNAUDITED)  
MARCH 31, 2010

| Manufacturing Continued:   |   |                          |                                 |                                   |
|--|---|--------------------------|---------------------------------|-----------------------------------|
| Company  | Security  | Percent of<br>Net assets | Value                           | Cost (d)                          |
| Total manufacturing  |   | 62 %                     | 6,694,337                       | 7,061,592                         |
| Service:   |   |                          |                                 |                                   |
| Monitronics International, Inc.<br>Dallas, Texas<br>Provides home security systems<br>monitoring services    | 73,214 common shares (c)  |                          | 439,284                         | 54,703                            |
| Morgan Ohare, Inc. (b)<br>Addison, Illinois<br>Fastener plating and heat<br>treating                         | 0% debt security, due January 1, 2011<br>(c)<br>10% debt security, due January 1,<br>2011<br>57 common shares (c) |                          | 900,000<br>191,666<br>1         | 1,125,000<br>239,583<br>1         |
|  |   |                          | 1,091,667                       | 1,364,584                         |
| SMWC Acquisition Co., Inc. (a)<br>Kansas City, Missouri<br>Steel warehouse distribution<br>and<br>Processing | 12% debt security due September 30,<br>2011<br>145,397 shares Series A preferred                                  |                          | 220,000<br>290,794<br>510,794   | 220,000<br>290,794<br>510,794     |
| Total Service  |   | 18 %                     | 2,041,745                       | 1,930,081                         |
| Technology and Communications:   |   |                          |                                 |                                   |
| Feed Management Systems, Inc.<br>(a)<br>Brooklyn Center, Minnesota<br>Batch feed software and<br>systems     | 540,551 common shares (c)<br>674,309 shares Series A preferred (c)  |                          | 925,691<br>674,309<br>1,600,000 | 1,327,186<br>674,309<br>2,001,495 |

## And B2B internet services

|   |  |    |         |              |            |
|---|--|----|---------|--------------|------------|
| Portrait Displays, Inc.   | 10% debt security, due April 1, 2012         |    | 529,420 | 661,775      |            |
| Pleasanton, California  | Warrant to purchase 39,400 common shares (c) |    | ---     | ---          |            |
| Designs and markets pivot enabling software for LCD computer monitors |  |    | 529,420 | 661,775      |            |
| Total technology and communications                                   |  | 20 | %       | 2,129,420    | 2,663,270  |
|   |  |    |         | \$10,865,502 | 11,654,943 |

(a) Affiliated company. Represents ownership of greater than 5% to 25% of the outstanding voting securities of the issuer, and is or was an affiliate of MACC as defined in the Investment Company Act of 1940 at or during the period ended December 31, 2009.

(b) Controlled company. Represents ownership of greater than 25% of the outstanding voting securities of the issuer, and is or was a controlled affiliate of MACC as defined in the Investment Company Act of 1940 at or during the period ended March 31, 2010.

(c) Presently non-income producing.

(d) For all debt securities presented, the cost is equal to the principal balance.

(e) During the three month period ended December 31, 2009, the 12% debt security held with Detroit Tool Metal Products Co. was restructured and extended. As part of this restructuring previously accrued and unpaid interest in the amount of \$439,314 has been added to the principal. As consideration for the restructuring \$101,265 was also added to the principal debt due to MACC, representing interest and penalty fees in exchange for the restructuring.

(e)

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS.

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

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

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

These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, as disclosed in MACC's prior Securities and Exchange Commission ("SEC") filings. These and many other factors could affect MACC's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by MACC or on its behalf. MACC undertakes no obligation to revise or update any forward-looking statements. The forward-looking statements contained in this Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All references to fiscal year apply to MACC's respective fiscal years which end on September 30.

Results of Operations

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

Second Quarter Ended March 31, 2010 Compared to Second Quarter Ended March 31, 2009

For the three months ended  
March 31,

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|                          |    | 2010      | 2009      | Change  |
|--------------------------|----|-----------|-----------|---------|
| Total investment income  | \$ | 78,775    | 81,763    | (2,988) |
| Total operating expenses |    | (246,609) | (320,312) | 73,703  |
| Investment expense, net  |    | (167,834) | (238,549) | 70,715  |

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|  |    |             |             |             |
|--|----|-------------|-------------|-------------|
| Net realized (loss) gain on investments  |    | (3,063,596) | (768,610)   | (2,294,986) |
| Net change in unrealized appreciation/<br>depreciation on investments and other assets |    | 2,618,444   | (381,771)   | 3,000,215   |
| Net loss on investments  |    | (445,152)   | (1,150,381) | 705,229     |
| Net change in net assets from operations   | \$ | (612,986)   | (1,388,930) | 775,944     |
| Net asset value per share:   |    |             |             |             |
| Beginning of period  | \$ | 2.97        | 4.31        |             |
| End of period  | \$ | 2.72        | 3.75        |             |

#### Total Investment Income

During the current fiscal year second quarter, total investment income was \$78,775, a decrease of \$2,988, or 4%, from total investment income of \$81,763 for the prior year second quarter. In the current year second quarter as compared to the prior year second quarter, interest income increased \$2,445 or 3%, and dividend income decreased \$5,433, or 70%. The increase in interest income is the net result of (i) an increase in interest income due to one follow-on debt portfolio security investment, (ii) an increase due to one debt portfolio security paying interest which was on non-accrual of interest status, (iii) a decrease due to repayments of principal on debt portfolio securities issued to us by three portfolio companies, and (iv) a decrease in interest income on one debt portfolio security which has been written off in the current year second quarter. In the both current year second quarter and the prior year second quarter, MACC received a dividend on one existing portfolio investment. The decrease in dividend income in the current year was due to a smaller dividend amount. MACC anticipates that its dividend income will continue to decrease in future periods.

#### Net Operating Expenses

Net operating expenses for the second quarter of the current year were \$246,609, a decrease of \$73,703 or 23%, as compared to net operating expenses for the prior year second quarter of \$320,312. Interest expense decreased \$7,151 or 10%, in the current year second quarter due to the decrease in the principal balance of the Note Payable to Cedar Rapids Bank & Trust Company as discussed below under Going Concern Uncertainty, Financial Condition, Liquidity and Capital Resources.

Management fees decreased \$47,575, or 62%, in the current year second quarter due to the investment adviser, Eudaimonia Asset Management, LLC (“EAM”), having voluntarily waived its management fee of 1% of net assets, effective in May 2009, for an indefinite period. The remaining 1% of the management fee continues to be paid to our subadviser, InvestAmerica Investment Advisors, Inc. (“InvestAmerica”). Professional fees decreased \$17,369, or 17%, in the current year second quarter as compared to the prior year second quarter. The decrease is primarily related to legal costs incurred in the prior year first quarter which were recorded in the prior year second quarter. Other expenses decreased \$1,608, or 2%, in the current year second quarter as compared to the prior year second quarter.

#### Investment Expense, Net

For the current year second quarter, MACC recorded investment expense, net of \$167,834, as compared to investment expense, net of \$238,549 during the prior year second quarter, a decrease of \$70,715, or 30%. The decrease in investment expense, net is primarily the result of the decrease in interest income.

#### Net Realized Gain/(Loss) on Investments

During the current year second quarter, MACC realized a net loss of \$3,063,596 on three portfolio investments, as compared with a net loss of \$768,610 on one portfolio investment in the prior year second quarter. The current

period realized loss was the write-off of two portfolio investments which had been previously written down to \$1 through unrealized losses and the write down on one portfolio investment due to the restructure of the investment. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities. Under the Investment Advisory Agreement, the Investment Adviser is entitled to be paid an incentive fee, which is calculated as a percentage of the excess of our realized gains in a particular period, over the sum of net realized losses, unrealized depreciation, and operating losses during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to the Investment Adviser under the Advisory Agreement.

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

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

#### Net Change in Unrealized Appreciation/Depreciation of Investments

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

We recorded a net change in unrealized appreciation/depreciation on investments of \$2,618,444 during the current year second quarter, as compared to (\$381,771) during the prior year second quarter. This net change resulted from:

Unrealized appreciation in the fair value of one portfolio company of \$200,000 during the current year second quarter, as compared to no unrealized appreciation during the prior year second quarter.

Reversal of unrealized appreciation in the fair value of one portfolio company of \$21,754 during the current year second quarter, as compared to no reversal of unrealized appreciation during the prior year second quarter.

Unrealized depreciation in the fair value of two portfolio companies totaling \$632,355 during the current year second quarter, as compared to unrealized depreciation in the fair value of two portfolio companies of \$1,150,381 during the prior year second quarter.

Reversal of unrealized depreciation of \$3,072,553 in three portfolio companies written-off during the current year second quarter, as compared to reversal of unrealized depreciation of \$768,610 in one portfolio company in the prior year second quarter.

#### Net Change in Net Assets from Operations

We experienced a decrease of \$612,986 in net assets for the second quarter of fiscal year 2010, and the resulting net asset value per share was \$2.72 as of March 31, 2010, as compared to \$3.17 as of September 30, 2009. The decrease

in net asset value during the second quarter ended March 31, 2010 was primarily the result of the net realized loss on investments, as described above.

As of March 31, 2010, we had two portfolio investments valued at cost, had recorded unrealized appreciation on three portfolio investments, and had recorded unrealized depreciation on seven portfolio investments. Quarterly valuations can be affected by a portfolio company's short term performance that results in increases or decreases in unrealized depreciation and unrealized appreciation for the quarter. Changes in the fair value of a portfolio security may or may not be indicative of the long term performance of the portfolio company.

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

We have initiated the process to raise additional capital by filing a registration statement to effect a rights offering that was approved by shareholder vote on April 28, 2008, which we anticipate effecting in the coming quarter and hope to yield near \$1 million in new capital. We further believe that future capital raises will be necessary and that they should be done at prices that are not excessively dilutive to current shareholders.

#### Six Months Ended March 31, 2010 Compared to Six Months Ended March 31, 2009

|  | For the six months ended |             |             |
|--|--------------------------|-------------|-------------|
|  | March 31,                |             |             |
|  | 2010                     | 2009        | Change      |
| Total investment income  | \$ 171,966               | 293,141     | (121,175)   |
| Net operating expense  | (509,661)                | (613,710)   | (104,049)   |
| Investment expense, net  | (337,695)                | (320,569)   | (17,126)    |
| Net realized (loss) gain on investments  | (3,063,596)              | (768,610)   | (2,294,986) |
| Net change in unrealized appreciation/<br>depreciation on investments and other assets | 2,294,773                | (112,671)   | 2,407,444   |
| Net loss on investments  | (768,823)                | (881,281)   | 112,458     |
| Net change in net assets from operations   | \$ (1,106,518)           | (1,201,850) | 95,332      |
| Net asset value per share:   |                          |             |             |
| Beginning of period  | \$ 3.17                  | 4.23        |             |
| End of period  | \$ 2.72                  | 3.75        |             |

#### Total Investment Income

During the current fiscal year six-month period, total investment income was \$171,966, a decrease of \$121,175, or 41%, from total investment income of \$293,141 for the prior year six-month period. In the current year six-month

period as compared to the prior year six-month period, interest income decreased \$48,750, or 28%, and dividend income decreased \$72,425 or 62%. The decrease in interest income is the net result of (i) an increase due to one follow-on debt portfolio security investment, (ii) an increase due to one debt portfolio security paying interest which was on non-accrual of interest status, (iii) an increase due to one debt portfolio security paying interest for the year which was on non-accrual of interest status, (iv) a decrease due to repayments of principal on debt portfolio securities issued to us by three portfolio companies, (v) a decrease due to one debt portfolio security

which has been placed on non-accrual of interest status, and (vi) a decrease in interest income on one debt portfolio security which has been written off in the six-month period of the current year. In both the current year six-month period and the prior year six-month period, MACC received dividends on two existing portfolio investments, however the current year dividends were smaller. MACC anticipates that its dividend income will continue to decrease in future periods.

#### Net Operating Expenses

Net operating expenses for the six-month period of the current year were \$509,661, a decrease of \$104,049, or 17%, as compared to net operating expenses for the prior year six-month period of \$613,710. Interest expense decreased \$12,662, or 8%, in the current year six-month period due to the repayment of principal. Management fees decreased \$91,452, or 60%, in the current year six-month period due to the investment adviser, EAM, having voluntarily waived its management fee of 1% on net assets, effective in May 2009, for an indefinite period. The remaining 1% of the management fee continues to be paid to our subadviser, InvestAmerica. Professional fees increased \$16,403, or 10%, in the current year six-month period. The increase is primarily related to the legal costs incurred in the filing of the rights offering and an increase in audit fees. Other expenses decreased \$16,338, or 11%, in the current year six-month period as compared to the prior year six-month period. The decrease in other expenses is primarily the net result of (i) the decrease in directors' fees and travel reimbursements, and (ii) a decrease in directors and officers insurance expense.

#### Investment Expense, Net

For the current year six-month period, MACC recorded investment expense, net of \$337,695, as compared to investment expense, net of \$320,569 during the prior year six-month period, an increase of \$17,126, or 5%. The decrease in investment expense, net is the result of the decrease in investment income described above, partially offset by the decrease in investment expense described above.

#### Net Realized Gain on Investments

During the current year six-month period, MACC realized a net loss of \$3,063,596 on three portfolio investments, as compared with net realized loss on investments of \$768,610 during the prior year six-month period. The current period realized loss was the write-off of two portfolio investments which had been previously written down to \$1 through unrealized losses and the write down on one portfolio investment due to the restructure of the investment. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities.

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

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

MACC recorded net change in unrealized appreciation/depreciation on investments of \$2,294,773 during the current year six-month period, as compared to (\$112,671) during the prior year six-month period. This net change resulted from:

Unrealized appreciation in the fair value of two portfolio companies totaling \$370,746 during the current year six-month period, as compared to unrealized appreciation in the fair value of two portfolio companies totaling

\$334,051 during the prior year six-month period.

Reversal of unrealized appreciation in the fair value of two portfolio companies totaling \$74,641 during the current year six-month period, as compared to no reversals of unrealized appreciation during the prior year six-month period.

Unrealized depreciation in the fair value of four portfolio companies of \$1,073,885 during the current year six-month period, as compared to unrealized depreciation in the fair value of four portfolio companies of \$1,215,332 during the prior year six-month period.

Reversal of unrealized depreciation of \$3,072,553 in three portfolio companies written-off during the current year six-month period, as compared to reversal of unrealized depreciation of \$768,610 in one portfolio company in the prior year six-month period.

#### Going Concern Uncertainty, Financial Condition, Liquidity and Capital Resources

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

As of March 31, 2010, our cash and money market accounts totaled \$112,054. MACC has a note payable (“Note Payable”) with Cedar Rapids Bank & Trust Company (“CRB&T”) in the amount of \$4,424,392 at March 31, 2010 that is due and payable January 10, 2011.

Current working capital and cash will not be adequate for operations at their current levels. MACC continues to seek additional cash through future sales of portfolio equity and debt securities. MACC is currently under contract to sell a significant portfolio asset and is seeking potential bids for another portfolio asset. The efforts to sell investments have taken longer than initially anticipated while performance of the underlying portfolio companies in certain cases has deteriorated. The ability to liquidate positions had been adversely affected by credit conditions and the downturn in the financial markets and the global economy. MACC continues to review its current investment portfolio and evaluate potential exit opportunities meant to maximize return on initial investment.

MACC is also in the process to commence a rights offering to raise funds for operating needs and to provide capital to initiate the New Portfolio Strategy. In addition, at the next annual meeting MACC expects to seek shareholder approval for authority to issue shares at less than net asset value. If such sale and capital raising efforts are not successful, MACC may need to liquidate its current investment portfolio, to the extent possible, which could result in significant realized losses due to the current economic conditions.

The following table shows our significant contractual obligations for the repayment of the Note Payable and other contractual obligations as of March 31, 2010:

| Payments due by period  |       |                     |              |              |              |
|-------------------------|-------|---------------------|--------------|--------------|--------------|
| Contractual Obligations | Total | Less than<br>1 Year | 1-3<br>Years | 3-5<br>Years | More<br>than |

5 Years

|                        |    |           |           |     |     |     |
|------------------------|----|-----------|-----------|-----|-----|-----|
| Note Payable           | \$ | 4,424,392 | 4,424,392 | --- | --- | --- |
| Incentive Fees Payable | \$ | 16,361    | 16,361    | --- | --- | --- |

Failure to pay-off, refinance or find alternative financing for the term loan could pose significant financial risks to MACC given the relative illiquid nature of the Existing Portfolio. In addition, we anticipate that our current cash and money market accounts will not be adequate enough to fund our cash flow short-fall from operations during fiscal 2010. We will need to liquidate portfolio assets to fund the operating cash short-fall. Although management believes we will be able liquidate portfolio assets sufficient to provide funds for MACC to meet its fiscal year 2010 anticipated cash requirements, there can be no assurance that MACC's cash flows from portfolio sales, operations or cash requirements will be as projected.

MACC filed an amended rights offering registration statement with the SEC on April 14, 2010. The rights offering is intended to raise funds for operating purposes and to begin the new strategy of investing in highly liquid public securities qualified for BDC investment. In addition, at the next annual meeting MACC expects to seek shareholder approval for authority to issue shares at less than net asset value.

#### Portfolio Activity

With respect to the Existing Portfolio, we have invested in and lended to businesses through investments in subordinated debt (generally with detachable equity warrants), preferred stock and common stock. We, however, are not currently making investments in new portfolio companies. As of March 31, 2010, certain debt investments have or were near expiration. Since the quarter end, we have either restructured or continue to work toward restructuring these investments. The total portfolio value of our investments in illiquid securities was \$10,865,502 at March 31, 2010 and \$11,775,272 at September 30, 2009. During the three months ended March 31, 2010, we made one follow-on investment in the amount of \$39,000 in an existing portfolio company.

With respect to the Existing Portfolio, we have frequently co-invested with other funds managed by InvestAmerica. All of the \$39,000 invested during the current quarter ended March 31, 2010 represented co-investments with another fund managed by InvestAmerica. When we make any co-investment with these related funds, we follow certain procedures consistent with orders of the SEC for related party co-investments to mitigate conflict of interest issues.

#### Critical Accounting Policy

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

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

the differences could be material.

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

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

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

#### Determination of Net Asset Value

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

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

We are subject to market risk from changes in market prices of publicly-traded equity securities held from time to time in our investment portfolio. At March 31, 2010, we had no publicly-traded equity securities in the Existing Portfolio, but, as noted elsewhere, we intend to pursue an investment strategy consisting of new equity investments in very small public companies that qualify for investment by BDCs under the 1940 Act, to the extent we are able to raise additional capital.

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

The recent economic conditions generally and the disruptions in the capital markets over the past two years in particular have decreased liquidity, where available. The longer these conditions persist, the greater the probability that these factors could reduce our ability to effectively liquidate portfolio positions, increase our cost and significantly limit our access to debt and equity capital, and thus continue to have an adverse effect on our operations and financial results. Many of our portfolio companies were susceptible to the economic downturn, which affected their ability to repay our loans or engage in a liquidity event, such as a sale or recapitalization.

A continued economic downturn could continue to impact some of the industries in which we invest, causing us to be vulnerable to further losses in our portfolio. Therefore, the number of our non-performing assets could increase and the fair market value of our portfolio decrease during these periods. The economic downturn has affected the

availability of credit generally and may prevent us from replacing or renewing our credit facility on reasonable terms, if at all. If market instability intensifies, we may experience difficulty in raising capital.

Recent market conditions have also affected the trading price of our common stock and thus our ability to finance new investments through the issuance of equity. The economic downturn may also continue to decrease the value of collateral securing the Note Payable, as well as the value of our equity investments. For the three months

ended March 31, 2010, we recorded net unrealized depreciation on our portfolio of investments of \$3,063,596, which was attributable to the decrease in fair value of our portfolio. We may continue to see further decreases in the value of our portfolio in the event that the economic downturn continues and the general illiquidity of capital markets continues.

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

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

Item s 4 and 4T.

#### Controls and Procedures

As of the end of the period covered by this report, in accordance with Item 307 of Regulation S-K promulgated under the 1933 Act, our Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”) have conducted evaluations of our disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Exchange Act, the term “disclosure controls and procedures” means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed our disclosure controls and procedures and have concluded that those disclosure controls and procedures were effective as of December 31, 2009. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002, each of the Certifying Officers has executed an Officer’s Certification included in this Quarterly Report on Form 10-Q.

As of March 31, 2010, there have not been any significant changes in our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

## PART II. OTHER INFORMATION

Item 1.

#### Legal Proceedings.

There are no items to report.

Item 1A.

#### Risk Factors.

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

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

There are no items to report.

Item 3. Defaults Upon Senior Securities.

There are no items to report.

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Item 4. (Removed and Reserved).

Item 5. Other Information.

There are no items to report.

Item 6. Exhibits.

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

- |      |   |
|------|---|
| 31.1 | Section 302 Certification of Travis T. Prentice (President and CEO).  |
| 31.2 | Section 302 Certification of Derek J. Gaertner (CFO).                 |
| 32.1 | Section 1350 Certification of Travis T. Prentice (President and CEO). |
| 32.2 | Section 1350 Certification of Derek J. Gaertner (CFO).                |

SIGNATURES

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

MACC PRIVATE EQUITIES INC.

Date: May 17, 2010

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

Date: May 17, 2010

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

EXHIBIT INDEX

| Exhibit | Description  | Page |
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| 31.1    | Section 302 Certification of Travis T. Prentice (CEO)  | 26   |
| 31.2    | Section 302 Certification of Derek J. Gaertner (CFO)   | 27   |
| 32.1    | Section 1350 Certification of Travis T. Prentice (CEO) | 28   |
| 32.2    | Section 1350 Certification of Derek J. Gaertner (CFO)  | 29   |

