

Edgar Filing: MACC PRIVATE EQUITIES INC - Form 10-Q

MACC PRIVATE EQUITIES INC

Form 10-Q

August 15, 2005

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

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

Commission file number 0-24412

MACC Private Equities Inc.

(Exact name of registrant as specified in its charter)

Delaware

42-1421406

(State or other jurisdiction of incorporation  
or organization)

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

101 Second Street SE, Suite 800, Cedar Rapids, Iowa 52401

(Address of principal executive offices)  
(Zip Code)

(319) 363-8249

(Registrant's telephone number, including area code)

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

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

Yes X No

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Please indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

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APPLICABLE ONLY TO CORPORATE ISSUERS:

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

At June 30, 2005, the registrant had issued and outstanding 2,329,255 shares of common stock.

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Certifications.....See Exhibits 31 and 32

**PART 1 -- FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
Condensed Consolidated Balance Sheets**

	June 30, 2005 (Unaudited)	September 30, 2004
	-----	-----
Assets		
Loans and investments in portfolio securities, at fair value:		
Unaffiliated companies (cost of \$7,112,366 and \$10,367,898)	\$ 4,611,543	7,352,409
Affiliated companies (cost of \$17,864,956 and \$19,100,024)	24,183,965	21,266,781
Controlled companies (cost of \$4,473,183 and \$4,536,309)	5,016,933	4,598,894
Cash and cash equivalents	4,866,059	4,774,771
Interest receivable	353,250	221,844
Other assets	501,112	729,417
	-----	-----
Total assets	\$ 39,532,862	38,944,116
	=====	=====
Liabilities and net assets		
Liabilities:		
Debentures payable	\$ 24,790,000	25,790,000
Litigation settlement payable	---	1,713,174
Note payable-related party	305,000	270,000
Deferred incentive fees payable	---	18,353
Accrued interest	633,876	180,138
Accounts payable and other liabilities	279,537	234,230
	-----	-----
Total liabilities	26,008,413	28,205,895
	-----	-----
Net assets:		
Common stock, \$.01 par value per share; authorized 10,000,000 shares; issued and outstanding 2,329,255 shares	23,293	23,293
Additional paid-in-capital	9,139,219	11,501,075
Unrealized appreciation (depreciation) on investments	4,361,937	(786,147)
	-----	-----
Total net assets	13,524,449	10,738,221
	-----	-----
Total liabilities and net assets	\$ 39,532,862	38,944,116
	=====	=====

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Net assets per share \$ 5.81 4.61  
===== =====

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the three months ended June 30, 2005	For the three months ended June 30, 2004	For the nine months ended June 30, 2005
	-----	-----	-----
Investment income:			
Interest			
Unaffiliated companies	\$ 75,524	154,724	198,818
Affiliated companies	444,716	184,070	1,013,978
Controlled companies	85,942	68,247	380,338
Other	17,904	12,690	53,420
Dividends			
Unaffiliated companies	---	---	---
Affiliated companies	217,246	250,335	483,711
Processing fees	---	---	7,700
Other	39,360	1,002	42,155
	-----	-----	-----
Total investment income	880,692	671,068	2,180,120
	-----	-----	-----
Operating expenses:			
Interest expenses	523,927	536,599	1,566,681
Management fees	173,433	262,810	657,827
Incentive fees	---	---	---
Professional fees	122,211	93,155	444,106
Other	80,674	82,577	241,556
	-----	-----	-----
Total operating expenses before management fees waived	900,245	975,141	2,910,170
Management fees waived	(51,642)	---	(103,867)
	-----	-----	-----
Net operating expenses	848,603	975,141	2,806,303
Investment income (expense). net before tax expense	32,089	(304,073)	(626,183)
	-----	-----	-----
Income tax expense	50,000	---	50,000
	-----	-----	-----

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Investment expense, net after tax expense	(17,911)	(304,073)	(676,183)
	-----	-----	-----
Realized and unrealized gain (loss) on investments and other assets:			
Net realized gain (loss) on investments:			
Unaffiliated companies	16,557	26,495	(2,412,526)
Affiliated companies	638,657	3,380	638,657
Controlled companies	---	---	---
Net change in unrealized appreciation/depreciation on investments	1,651,887	(80,659)	5,148,084
Net change in unrealized gain (loss) on other assets	2,115	1,505	88,196
	-----	-----	-----
Net gain (loss) on investments	2,309,216	(49,279)	3,462,411
	-----	-----	-----
Net change in net assets from operations	\$2,291,305	(353,352)	2,786,228
	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For the nine months ended June 30, 2005	For the nine months ended June 30, 2004
	-----	-----
Cash flows from operating activities:		
Increase in net assets from operations	\$ 2,786,228	174,696
	-----	-----
Adjustments to reconcile increase in net assets from operations to net cash (used in) provided by operating activities:		
Net realized and unrealized gain on investments	(3,374,215)	(2,075,228)
Net realized and unrealized (gain) loss on other assets	(88,196)	724,823
Change in litigation settlement payable	(1,713,174)	---
Proceeds from disposition of and payments on loans and investments in portfolio securities	3,409,744	8,023,128
Payments of incentive fees to investment advisor	---	(497,517)
Purchases of loans and investments in portfolio securities	(533,883)	(481,934)
Change in interest receivable	(282,293)	(164,201)
Change in other assets	353,032	784,532
Change in accrued interest, deferred incentive fees payable, accounts payable and other liabilities	499,045	403,640
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Total adjustments	(1,729,940)	6,717,243
Net cash provided by operating activities	1,056,288	6,891,939
Cash flows from financing activities:		
Proceeds from issuance of note payable-related party	35,000	270,000
Debt repayment	1,000,000	---
Net cash (used in) provided by financing activities	(965,000)	270,000
Net increase in cash and cash equivalents	91,288	7,161,939
Cash and cash equivalents at beginning of period	4,774,771	722,691
Cash and cash equivalents at end of period	\$ 4,866,059	7,884,630
Supplemental disclosure of cash flow information -		
Cash paid during the period for interest	\$ 1,010,076	1,048,948
Supplemental disclosure of noncash investing and financing information -		
Assets received in exchange of securities	---	196,687
In-kind interest income received in the form of securities	\$ 150,886	323,820

See accompanying notes to unaudited condensed consolidated financial statements.

### MACC PRIVATE EQUITIES INC.

#### Notes to Unaudited Condensed Consolidated Financial Statements

##### (1) Basis of Presentation

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

The financial statements included herein have been prepared in accordance with US generally accepted accounting principals for interim financial information and instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto of MACC Private Equities Inc. and its Subsidiary as of and for the year ended September 30, 2004. The information

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reflects all adjustments consisting of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods. The results of the interim period reported are not necessarily indicative of results to be expected for the year. The balance sheet information as of September 30, 2004 has been derived from the audited balance sheet as of that date.

Certain reclassifications have been made to prior period consolidated financial statements to conform to the June 30, 2005 presentation.

### (2) Critical Accounting Policy

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

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

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

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realized gains and losses. Under the provisions of SOP 90-7, the fair value of loans and investments in portfolio securities on February 15, 1995, the fresh-start date, is considered the cost basis for financial statement purposes.

### (3) Commitments and Contingencies

As an SBIC, MorAmerica Capital is required to comply with the regulations of the SBA (the "SBA Regulations"). These regulations include the capital impairment rules, as defined by Regulation 107.1830 of the SBA Regulations. As of June 30, 2005, the capital of MorAmerica Capital was impaired by approximately 51.76%, (compared to 52.48% at September 30, 2004) which exceeded the 50% maximum impairment percentage permitted under the SBA Regulations. Accordingly, as of June 30, 2005 SBA had the discretion not to extend additional financing to MorAmerica Capital, as well as the right to declare a default on MorAmerica Capital's outstanding SBA-guaranteed debentures, to accelerate MorAmerica Capital's payment obligations thereunder and to seek appointment of the SBA as receiver for MorAmerica Capital. If the SBA were to exercise its

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right to accelerate MorAmerica Capital's payment obligations under the outstanding SBA-guaranteed debentures, MorAmerica Capital may be required to liquidate some or all of its portfolio investments. Because most of its portfolio investments are not publicly traded, MorAmerica Capital may receive less than the carrying value for its portfolio investments in connection with such a forced sale. Therefore, the exercise by the SBA of any of these rights could have a material adverse effect on the financial position, results of operations, cash flow and liquidity of MACC and MorAmerica Capital and raises substantial doubt about the Company's ability to continue as a going concern. As of June 30, 2005, the SBA had not declared a default on MorAmerica Capital's outstanding SBA-guaranteed debentures, accelerated MorAmerica Capital's payment obligation thereunder or sought appointment of the SBA as receiver for MorAmerica Capital.

### (4) Financial Highlights

	For the nine months ended June 30, 2005	For the nine months ended June 30, 2004
	-----	-----
Per Share Operating Performance		
(For a share of capital stock outstanding throughout the period (1):		
Net asset value, beginning of period	\$ 4.61	5.47
	-----	-----
Income from investment operations:		
Investment expense, net	(0.29)	(0.70)
Net realized and unrealized gain on investment transactions	1.49	0.78
	-----	-----
Total from investment operations	1.20	0.08
	-----	-----
Net asset value, end of period	\$ 5.81	5.55
	=====	=====
Closing market price	\$ 2.20	3.55
	=====	=====

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	For the nine months ended June 30, 2005	For the nine months ended June 30, 2004
	-----	-----
Total return		
Net asset value basis (1)	25.95 %	1.37
Market price basis	(36.24) %	40.87
Net asset value, end of period (in thousands)	\$ 13,524	12,921



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Ratio to average net assets:

Investment (expense) income, net (1)	(5.81) %	(12.55)
Operating and income tax expense (1)	26.06 %	27.79

(1) MACC's investment advisor agreed to a voluntary, temporary reduction in management fees from January 1, 2003 through February 29, 2004. In addition, MACC's investment advisor agreed to voluntarily waive any management fees payable by MorAmerica Capital for the months of March and April, 2005, in relation to SBA's decision not to approve the investment advisor as investment advisor of MorAmerica Capital. Due to these agreements, the investment advisor voluntarily waived \$103,867 and \$87,092 of management fees for the nine months ended June 30, 2005 and 2004, respectively. Excluding the effects of the waiver for the nine months ended June 30, 2005 and 2004, total return on a net assets value basis would be 24.98% and 0.69%, respectively; the investment (expense) income, net ratio would be (6.81)% and (13.26)%, respectively; and the operating and income expense ratio would be 27.15% and 28.55%, respectively.

The ratios of investment (expense) income, 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.

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF INVESTMENTS  
JUNE 30, 2005

Manufacturing:

Company	Security	Percent of Net asset
Architectural Art Manufacturing, Inc. (a) Wichita, Kansas Manufacturer of industrial and commercial boilers and shower doors, frames and enclosures	12% debt security, due March 31, 2007 (c) Warrant to purchase 11,143 common shares (c) 10% debt security, due March 31, 2007 (c) 121,457 common shares (c) 12% debt security, due March 31, 2007 (c) 312,000 common shares (c)	
Aviation Manufacturing Group, LLC (a) Yankton, South Dakota Manufacturer of flight critical parts of aircraft	14% debt security, due October 1, 2007 154,000 units preferred Membership interest	
Central Fiber Corporation	12% debt security, due December 31, 2005	

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Wellsville, Kansas Recycles and manufactures cellulose fiber products	12% debt security, due December 31, 2005 Warrant to purchase 490.67 common shares (c)
Detroit Tool Metal Products Co. (a) Lebanon, Missouri Metal stamping	14% debt security, due February 29, 2008 19,853.94 shares Series A preferred (c)
Handy Industries, LLC (a) Marshalltown, Iowa Manufacturer of lifts for motorcycles, trucks and industrial metal products	12.5% debt security, due January 8, 2007 167,171 units Class B preferred (c) Membership interest
Hicklin Engineering, L.C. (a) Des Moines, Iowa Manufacturer of auto and truck transmission and brake dynamometers	10% debt security, due June 30, 2007 Membership interest
Humane Manufacturing, LLC (b) Baraboo, Wisconsin Manufacturer of rubber mats for anti-fatigue, agricultural, exercise and roofing markets	12% debt security, due January 31, 2005 12% promissory note, due December 31, 2004 Membership interest (c)
Industrial Tooling & Fabrication, LLC (a) Fort Madison, Iowa Metal stamping	10% debt security, due November 18, 2009 12% debt security, due November 18, 2009

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED...  
JUNE 30, 2005

Manufacturing Continued:

Company	Security	Percent of Net asset
.....		
Kwik-Way Products, Inc. (a) Marion, Iowa Manufacturer of automobile aftermarket engine and brake repair machinery	2% debt security, due January 31, 2008 2% debt security, due January 31, 2008 29,340 common shares (c) 38,008 common shares (c)	

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Linton Truss Corporation Delray Beach, Florida Manufacturer of residential roof and floor truss systems	542.8 common shares (c) 400 shares Series 1 preferred (c) Warrants to purchase common shares (c)
M.A. Gedney Company (a) Chaska, Minnesota Pickle processor	536,003 shares preferred (c) Warrant to purchase 34,223 preferred shares (c) 10% debt security
Magnum Systems, Inc. (a) Parsons, Kansas Manufacturer of industrial bagging equipment	12% debt security, due July 31, 2006 48,038 common shares (c) 292,800 shares preferred (c) Warrant to purchase 56,529 common shares (c)
Metal Tooling Holdings, Inc. (a) Lebanon, Missouri Metal stamping	6,652.98 common shares (c) 1,234.19 common shares (c)
Penn Wheeling Acquisition Company, LLC (a) Glen Dale, West Virginia Metal closure manufacturer	13% debt security, due March 10, 2007 62 units Class B membership interest (c) 35 units Class C membership interest (c)
Pratt-Read Corporation (a) Bridgeport, Connecticut Manufacturer of screwdriver shafts and handles and other hand tools	13,889 shares Series A Preferred 7,718 shares Series A preferred 13% debt security, due July 26, 2006 Warrants to purchase common shares (c)
Simoniz USA, Inc. Bolton, Connecticut Producer of cleaning and wax products under both the Simoniz brand and private label brand names	12% debt security, due April 1, 2008

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED...  
 JUNE 30, 2005

Manufacturing Continued:

Company	Security	Percent of Net asset
Spectrum Products, LLC (b) Missoula, Montana Manufacturer of equipment for the swimming pool industry	13% debt security, due October 9, 2006 385,000 units Series A preferred Membership interest	
Total manufacturing		134.36% =====

Service:

Concentrix Corporation (a) Pittsford, New York Provides marketing outsourcing solutions including telemarketing, fulfillment and web communications	3,758,750 shares Series A preferred (c) 130,539 shares Series C preferred (c) 328,485 shares Series D preferred (c)	
Direct Mail Holding, LLC (a) Mt. Pleasant, Iowa Provider of turnkey services for non-profit fund raising	Membership interest	
FreightPro, Inc. Overland Park, Kansas Internet based outsource provider of freight logistics	18% debt security, due February 21, 2007 (c) 18% debt security, due February 15, 2007 (c) Warrant to purchase 366,177.80 common shares (c)	
JHT Holdings, Inc. Joplin, Missouri Provider of truck drive-away, internet based auction and related services to the commercial truck industry	1,238 shares Class A common (c)	
Lee Mathews Equipment, Inc. Kansas City, Missouri Distributor of industrial pump systems	12% debt security, due March 10, 2005 Warrant to purchase 153,654 common shares (c) 12% debt security, due March 10, 2005	

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Monitronics International, Inc. 73,214 common shares (c)  
 Dallas, Texas  
 Provides home security  
 systems monitoring services

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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED...  
 JUNE 30, 2005

Service Continued:

Company	Security	Percent of Net asset
.....		
Morgan Ohare, Inc. (b)	0% debt security, due January 1, 2007 (c)	
Addison, Illinois	10% debt security, due January 1, 2007	
Fastener plating and heat treating	57 common shares (c)	
	10% debt security, due January 1, 2007	
	10% debt security, due January 1, 2007	
	10% debt security, due January 1, 2007	
	10% debt security, due January 1, 2007	
Organized Living, Inc.	545,204 shares Series A preferred (c)	
Westerville, Ohio	215,593 shares Series B preferred (c)	
Retail specialty stores for storage and organizational products	174,964.5714 shares Series C preferred (c)	
	138,889 shares Series D preferred (c)	
	800,000 shares Series F preferred (c)	
SMWC Acquisition Co., Inc. (a)	13% debt security due May 19, 2007	
Kansas City, Missouri	1,320 shares common (c)	
Steel warehouse distribution and processing	Warrant to purchase 2,200 common shares (c)	
	176,550 shares Series A preferred (c)	
Warren Family Funeral Homes, Inc.	12% debt security, due June 29, 2006	
Topeka, Kansas	Warrant to purchase 346.5 common shares (c)	
Provider of value priced funeral services		
Total service		84.85%

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Technology and Communications:

Feed Management Systems, Inc. (a) Brooklyn Center, Minnesota Batch feed software and systems and B2B internet services	540,551 common shares (c) 674,309 shares Series A preferred (c) 12% debt security, due May 20, 2008 12% debt security, due August 21, 2008 Warrants to purchase 166,500 Series A preferred (c)
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MainStream Data, Inc. (a) Salt Lake City, Utah Content delivery solutions provider	322,763 shares Series A preferred (c)
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MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF INVESTMENTS CONTINUED...  
 JUNE 30, 2005

Technology and Communications Continued:

Company	Security	Percent of Net asset
.....	.....	.....
Miles Media Group, Inc. (a) Sarasota, Florida  Tourist magazine publisher	1,000 common shares (c) 100 common options (c)	
Phonex Broadband Corporation Midvale, Utah Power line communications	1,855,302 shares Series A preferred (c)	
Portrait Displays, Inc. Pleasanton, California Designs and markets pivot enabling software for LCD computer monitors	8% debt security, due April 1, 2009 (c) 8% debt security, due April 1, 2012 (c) Warrant to purchase 39,400 common shares (c)	
SnapNames.com, Inc. Portland, Oregon Domain name management	10% debt security, due March 15, 2007 Warrant to purchase 465,000 common shares (c)	

Total technology and communications

30.80%

=====

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

See accompanying notes to unaudited condensed consolidated financial statements.

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**Item 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This section contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Act"). Such statements are made in good faith by MACC pursuant to the safe-harbor provisions of the 1995 Act, and are identified as including terms such as "may," "will," "should," "expects," "anticipates," "estimates," "plans," or similar language. In connection with these safe-harbor provisions, MACC has identified in its Annual Report to Shareholders for the fiscal year ended September 30, 2004, important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of MACC, including, without limitation, the high risk nature of MACC's portfolio investments, the effects of general economic conditions on MACC's portfolio companies, the effects of recent or future losses on the ability of MorAmerica Capital to comply with applicable regulations of the Small Business Administration and MorAmerica Capital's ability to obtain future funding, any actions taken by the SBA with respect to MorAmerica Capital's impairment, any failure to achieve annual investment level objectives, changes in prevailing market interest rates, and contractions in the markets for corporate acquisitions and initial public offerings. MACC further cautions that such factors are not exhaustive or exclusive. MACC does not undertake to update any forward-looking statement which may be made from time to time by or on behalf of MACC.*

**Historical and Recent Developments**

From 1995 through 2004, MACC pursued a strategy of increasing shareholder value by investing in new portfolio companies. This strategy included increasing the amount of MorAmerica Capital's funds available for investment with the proceeds from the issuance of debentures guaranteed by the Small Business

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Administration (the "SBA"). In addition, MorAmerica Capital voluntarily converted a portion of its retained earnings to paid-in capital in order to increase the amount of leverage that MorAmerica Capital could obtain under applicable SBA regulations. Additionally, because applicable SBA regulations limit the amount that a small business investment company (an "SBIC"), such as MorAmerica Capital, may invest in a single portfolio company based upon the paid-in capital of the SBIC, management believed that increasing the paid-in capital of MorAmerica Capital would permit the company to compete for larger investments. This strategy was largely successful from 1995 through 2000, and MACC realized significant increases in its net asset value over this period.

From 2001 through 2004, the operating performance and financial condition of MorAmerica Capital were adversely affected by several factors. First, a number of MorAmerica Capital's portfolio companies experienced negative operating results, which negatively affected MorAmerica Capital's investment income and resulted in unrealized depreciation and realized losses in the investment portfolio. Second, arbitration proceedings were instituted against MorAmerica Capital and several other SBICs in May 2002 with respect to the sale by the SBICs of a portfolio investment, which significantly increased MorAmerica Capital's operating expenses. The arbitration resulted in additional realized losses on MorAmerica Capital's investment in the portfolio company that was the subject of the arbitration proceedings. Third, MorAmerica Capital's earlier decision to convert retained

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earnings to paid-in capital magnified the effects that MorAmerica Capital's operating results had on the capital impairment formula used by the SBA, and ultimately resulted in MorAmerica Capital's capital impairment exceeding the maximum impairment percentage permitted under SBA regulations from September 30, 2004 through June 30, 2005.

In 2003, MACC's largest shareholder sold its interest in MACC to a group of new investors. Following this sale, MACC and MorAmerica Capital retained Atlas Management Partners, LLC ("Atlas") to serve as primary investment advisor to both companies, and retained InvestAmerica Investment Advisors, Inc. ("InvestAmerica") (who had previously served as the sole investment advisor to the companies) as a subadvisor to manage the existing portfolio. At that time, the Board of Directors of MACC had determined to pursue a strategy of increasing shareholder value by increasing the size of MACC and MorAmerica Capital.

In December, 2004, the SBA notified the companies that it would not approve Atlas as the investment advisor to MorAmerica Capital and required MorAmerica Capital to reinstate InvestAmerica as the sole investment advisor to MorAmerica Capital. In connection with the reinstatement of InvestAmerica as sole investment advisor to MorAmerica Capital, MorAmerica Capital and InvestAmerica agreed that MorAmerica Capital would not pay any incentive fees to InvestAmerica until all of its outstanding SBA-guaranteed debentures are paid in full and an escrow fund to satisfy the contingent obligations of MorAmerica Capital and the other SBICs to the SBA under the arbitration settlement has been fully funded.

In early 2005, MorAmerica Capital settled the arbitration proceedings described above, which required the approval of the SBA. As a condition to its approval, the SBA required MorAmerica Capital and the other SBICs that were parties to the arbitration settlement to indemnify the SBA against 50% of any losses the SBA may incur, up to \$7.5 million in the aggregate, relating to the outstanding SBA-guaranteed debentures issued by the SBICs. The agreement with



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the SBA also prohibits MorAmerica Capital from renewing its outstanding SBA-guaranteed debentures or issuing new SBA-guaranteed debentures.

Beginning in fiscal year 2004 and continuing through the nine months ended June 30, 2005, MorAmerica Capital's investment performance has improved. As of June 30, 2005, MACC's net asset value had increased \$2,786,228, or 25.95%, since September 30, 2004. Management attributes these favorable results to a number of factors, including the settlement of the arbitration proceedings discussed above, a general improvement in economic conditions which has benefited the operating performance and financial condition of a number of MACC's portfolio companies, and a more robust market for corporate acquisitions which has allowed MorAmerica Capital to liquidate profitably several of its portfolio investments.

In light of the above-described factors, at the present time, MACC and MorAmerica Capital intend to take advantage of current market conditions to increase shareholder value by actively seeking liquidity events for MorAmerica Capital's portfolio investments. The companies currently intend to use their existing excess cash to prepay MorAmerica Capital's outstanding SBA-guaranteed debentures, rather than making new investments. On June 1, 2005, MorAmerica Capital prepaid \$1,000,000 of its debentures that were scheduled to mature in December, 2007. As of June 30, 2005, MACC had cash and cash equivalents on a consolidated basis of \$4,886,059, substantially all of which was at MorAmerica Capital. Subsequent to June 30, 2005, MorAmerica Capital received an additional \$6,187,051 of cash proceeds from the sale of one portfolio investment. MorAmerica Capital intends to use its

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cash and cash equivalents to prepay \$8,000,000 of its outstanding SBA-guaranteed debentures on September 1, 2005. Finally, as a result of the receipt of this \$6,187,051, as of July 31, 2005, MorAmerica Capital no longer exceeds the maximum impairment percentage permitted under SBA regulations.

The Boards of Directors of MACC and MorAmerica Capital continue to consider the appropriate long-term strategy for the companies to maximize shareholder value.

### Results of Operations

MACC's investment income includes income from interest, dividends and fees. Investment expense, net represents total investment income minus net operating expenses after management fees waived. The main objective of portfolio company investments is to achieve capital appreciation and realized gains in the portfolio. These gains and losses are not included in investment expense, net. However, another one of MACC's on-going goals is to achieve net investment income and increased earnings stability. In this regard, a significant proportion of new portfolio investments are structured so as to provide a current yield through interest or dividends. MACC also earns interest on short-term investments of cash.

#### Third Quarter Ended June 30, 2005 Compared to Third Quarter Ended June 30, 2004

For the three months ended June 30,		Change
2005	2004	
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Total investment income	\$ 880,692	671,068	209,624
Net operating expense	(848,603)	(975,141)	126,538
Income taxes	(50,000)	---	(50,000)
	-----	-----	-----
Investment expense, net	(17,911)	(304,073)	286,162
	-----	-----	-----
Net realized gain on investments	655,214	29,875	625,339
Net change in unrealized appreciation/ depreciation on investments	1,651,887	(80,659)	1,732,546
Net change in unrealized gain (loss) on other assets	2,115	1,505	610
	-----	-----	-----
Net gain on investments	2,309,216	(49,279)	2,358,495
	-----	-----	-----
Net change in net assets from operations	\$ 2,291,305	(353,352)	2,644,657
	=====	=====	=====
Net asset value:			
Beginning of period	\$ 4.82	5.70	
	=====	=====	
End of period	\$ 5.81	5.55	
	=====	=====	

### Total Investment Income

During the current year third quarter, total investment income was \$880,692, an increase of \$209,624, or 31%, from total investment income of \$671,068 for the prior year third quarter. In the current year third quarter as compared to the prior year third quarter, interest income increased \$204,355, or 49%, dividend income decreased \$33,089, or 13%, and other income increased \$38,358, or 3828%. The increase in interest income is the net result of increases in interest income on debt portfolio securities issued by two portfolio companies that were previously on non-accrual of interest status and interest received on two follow-on investments made during the current year, partially offset by decreases in interest income on debt portfolio securities issued by one portfolio company which has been on non-accrual of interest status since the end of the first quarter of the current fiscal year and the repayment of

debt portfolio securities issued by one portfolio company. In the current year third quarter and the prior year third quarter, MACC received dividends on five existing portfolio investments, one of which was a distribution from a limited liability company. The dividends in the prior year third quarter were larger than in the current year third quarter. The increase in other income is due to a distribution received by MACC with respect to the insurance claim of a former MACC subsidiary against an insurance company in liquidation.

### Net Operating Expenses

Net operating expenses for the third quarter of the current year were \$848,603, a decrease of \$126,538, or 13%, as compared to net operating expenses for the prior year third quarter of \$975,141. Interest expense decreased \$12,672, or 2%, in the current year third quarter due to the repayment of borrowings from the Small Business Administration in the amount of \$2,150,000

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during the fourth quarter of fiscal year 2004 and \$1,000,000 during the third quarter of the current fiscal year. Management fees (after management fees waived in the current year third quarter and the prior year third quarter) decreased \$141,019, or 54%, in the current year third quarter due to the decrease in assets under management, more management fees waived in the current year third quarter, and a decrease in the management fee as a percentage of assets under management from 2.50% to 1.50%, which became effective May 1, 2005. Management fees as a percentage of assets under management are expected to be lower in future periods due to a change in the terms of the investment advisory relationships of MACC and MorAmerica Capital. Professional fees increased \$29,056, or 31%, in the current year third quarter primarily due to legal fees incurred in connection with the postponement of the 2005 Annual Shareholders Meeting. Other expenses decreased \$1,903, or 2%, in the current year third quarter as compared to the prior year third quarter.

### Investment Expense, Net

For the current year third quarter, MACC recorded investment expense, net of \$17,911, as compared to investment expense, net of \$304,073 during the prior year third quarter.

### Net Realized (Loss) Gain on Investments

During the current year third quarter, MACC recorded net realized gain on investments of \$655,214, as compared with net realized gain on investments of \$29,875 during the prior year third quarter. In the current year third quarter, MACC realized a gain of \$638,657 from the partial sale of one portfolio company and a gain of \$16,557 from the reversal of incentive fees which were deferred fees that will not be paid. 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 and investing in new portfolio investments. Subject to the terms of the agreement between MorAmerica Capital and InvestAmerica described above under "Historical and Recent Developments," MACC's investment advisor is entitled to be paid an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to the investment advisor.

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

MACC recorded net change in unrealized appreciation/depreciation on investments of \$1,651,887 during the current year third quarter, as compared to (\$80,659) during the prior year third quarter. This net change in unrealized appreciation/depreciation on investments of \$1,651,887 is the net effect of increases in fair value of five portfolio companies totaling \$1,851,886 and a decrease in fair value of one portfolio company of \$199,999.

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. When MACC increases the fair value of a portfolio investment above its cost, the

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unrealized appreciation for the portfolio as a whole increases, and when MACC decreases the fair value of a portfolio investment below its cost, unrealized depreciation for the portfolio as a whole increases. When MACC sells an appreciated portfolio investment for a gain, unrealized appreciation for the portfolio as a whole decreases as the gain is realized. Similarly, when MACC sells or writes off a depreciated portfolio investment for a loss, unrealized depreciation for the portfolio as a whole decreases as the loss is realized.

Net change in unrealized gain on other assets of \$2,115 during the current year third quarter was recorded with respect to other publicly traded securities which are classified as other assets due to an increase in the market price of these securities, as compared to a net change in unrealized gain on other assets of \$1,505 during the prior year third quarter.

### Net Change in Net Assets from Operations

MACC experienced an increase of \$2,786,228 in net assets at the end of the third quarter of fiscal year 2005, and the resulting net asset value per share was \$5.81 as of June 30, 2005, as compared to \$4.61 as of September 30, 2004.

With the economy improving in most sectors, the majority of MACC's thirty-one portfolio companies have improved results. High steel prices and energy prices have had some negative effect on the portfolio. MACC has nine portfolio investments valued at cost, has recorded unrealized appreciation on twelve portfolio investments, and has recorded unrealized depreciation on ten portfolio investments.

The overall activity in the investment banking market has improved and MACC expects to exit several investments in 2005. If the economy continues to improve, management believes MACC's investment portfolio will benefit from improved operating performance at a number of portfolio companies and from a more robust market for corporate acquisitions and investments.

### Nine Months Ended June 30, 2005 Compared to Nine Months Ended June 30, 2004

	For the nine months ended June 30,		Change
	2005	2004	
Total investment income	\$ 2,180,120	1,987,499	192,621
Net operating expense	(2,806,303)	(3,624,434)	818,131
Income taxes	(50,000)	---	(50,000)
Investment expense, net	(676,183)	(1,636,935)	960,752
Net realized (loss) gain on investments	(1,773,869)	3,020,653	(4,794,522)
Net change in unrealized appreciation/ depreciation on investments	5,148,084	(484,199)	5,632,283
Net change in unrealized gain (loss) on other assets	88,196	(724,823)	813,019
Net gain on investments	3,462,411	1,811,631	1,650,780

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Net change in net assets from operations	\$ 2,786,228	174,696	2,611,532
	=====	=====	=====
Net asset value:			
Beginning of period	\$ 4.61	5.47	
	=====	=====	
End of period	\$ 5.81	5.55	
	=====	=====	

### Total Investment Income

During the current year nine-month period, total investment income was \$2,180,120, an increase of \$192,621, or 10%, from total investment income of \$1,987,499 for the prior year nine-month period. In the current year nine-month period as compared to the prior year nine-month period, interest income increased \$334,363, or 25%, dividend income decreased \$187,095, or 28%, processing fees increased \$7,700, or 100%, and other income increased \$37,653, or 836%. The increase in interest income is the net result of increases in interest income on debt portfolio securities issued by three portfolio companies that were previously on non-accrual of interest status, interest received on two follow-on investments made during the current year nine-month period, and the conversion of interest to stock in one portfolio company which was on non-accrual of interest status in the prior year nine-month period, partially offset by decreases in interest income on debt portfolio securities issued by one portfolio company which has been on non-accrual of interest status since the end of the first quarter of the current fiscal year and the repayment of debt portfolio securities issued by two portfolio companies in the current year nine-month period. In the current year nine-month period, MACC received dividends on seven existing portfolio investments, three of which were distributions from limited liability companies, as compared to dividend income received in the prior year nine-month period from eight existing portfolio companies, five of which were distributions from limited liability companies. Processing fees increased due to fees received on one follow-on investment made in the current year nine-month period, compared to no new portfolio company investments in which MACC received a processing fee at closing in the prior year nine-month period. Other income increased due to a distribution received by MACC with respect to the insurance claim of a former MACC subsidiary against an insurance company in liquidation.

### Net Operating Expenses

Net operating expenses for the nine-month period of the current year were \$2,806,303, a decrease of \$818,131, or 23%, as compared to net operating expenses for the prior year nine-month period of \$3,624,434. Interest expense decreased \$34,184, or 2%, in the current year

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nine-month period due to the repayment of borrowings from the Small Business Administration in the amounts of \$2,150,000 during the fourth quarter of fiscal year 2004 and \$1,000,000 during the third quarter of the current fiscal year. Management fees (after management fees waived in the current year nine-month period and the prior year nine-month period) decreased \$141,556, or 20%, in the current year nine-month period due to the decrease in assets under management, more management fees waived in the current year nine-month period, and a decrease in the management fee as a percentage of assets under management from 2.50% to 1.50%, which became effective May 1, 2005. Management fees as a

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percentage of assets under management are expected to be lower in future periods due to the change in the terms of the investment advisory relationships of MACC and MorAmerica Capital. Professional fees decreased \$102,895, or 19%, in the current year nine-month period primarily due a decrease in legal expenses from the arbitration proceedings related to the sale of a former portfolio company. Other expenses decreased \$25,182, or 9%, in the current year nine-month period as compared to the prior year nine-month period due to the net result of decreases in other expenses from the postponement of the 2005 Annual Shareholders Meeting and decreases in directors fees, partially offset by an increase in insurance premiums, which became effective in the second quarter of the current fiscal year.

### Investment Expense, Net

For the current year nine-month period, MACC recorded investment expense, net of \$676,183, as compared to investment expense, net of \$1,636,935 during the prior year nine-month period.

### Net Realized (Loss) Gain on Investments

During the current year nine-month period, MACC recorded net realized loss on investments of \$1,773,869, as compared with net realized gain on investments of \$3,020,653 during the prior year nine-month period. In the current year nine-month period, MACC realized a gain of \$638,657 from the partial sale of one portfolio company, a gain of \$54,883 from the reversal of incentive fees which were deferred fees that will not be paid, a loss of \$635,251 from the sale of one portfolio company and a loss of \$1,832,158 from the write-off of one portfolio company of which \$1,832,071 was previously recorded as unrealized depreciation. 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 and investing in new portfolio investments. MACC's investment advisor is entitled to be paid an incentive fee which is calculated as a percentage of the excess of MACC's realized gains in a particular period, over the sum of net realized losses and unrealized depreciation during the same period. As a result, the timing of realized gains, realized losses and unrealized depreciation can have an effect on the amount of the incentive fee payable to the investment advisor.

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

MACC recorded net change in unrealized appreciation/depreciation on investments of \$5,148,084 during the current year nine-month period, as compared to (\$484,199) during the prior year nine-month period. This net change in unrealized appreciation/depreciation on investments of \$5,148,084 is the net effect of increases in fair value of nine portfolio companies totaling \$5,127,416, decreases in fair value of five portfolio companies totaling

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\$2,411,403, and the reversal of \$2,432,071 of depreciation resulting from the sale of one portfolio investment and the write-off of one portfolio investment.

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. When MACC

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increases the fair value of a portfolio investment above its cost, the unrealized appreciation for the portfolio as a whole increases, and when MACC decreases the fair value of a portfolio investment below its cost, unrealized depreciation for the portfolio as a whole increases. When MACC sells an appreciated portfolio investment for a gain, unrealized appreciation for the portfolio as a whole decreases as the gain is realized. Similarly, when MACC sells or writes off a depreciated portfolio investment for a loss, unrealized depreciation for the portfolio as a whole decreases as the loss is realized.

Net change in unrealized gain on other assets of \$88,196 during the current year nine-month period was recorded with respect to other securities which are classified as other assets, as compared to a net change in unrealized loss on other assets of \$724,823 during the prior year nine-month period.

### **Financial Condition, Liquidity and Capital Resources**

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

As an SBIC, MorAmerica Capital is required to comply with the regulations of the SBA (the "SBA Regulations"). These regulations include the capital impairment rules, as defined by Regulation 107.1830 of the SBA Regulations. As of June 30, 2005, the capital of MorAmerica Capital was impaired by approximately 51.76%, which exceeded the 50% maximum impairment percentage permitted under SBA Regulations. Accordingly, at June 30, 2005 the SBA had the discretion not to extend additional financing to MorAmerica Capital, as well as the right to declare a default on MorAmerica Capital's outstanding SBA-guaranteed debentures, to accelerate MorAmerica Capital's payment obligations thereunder and to seek appointment of the SBA as receiver for MorAmerica Capital. The exercise by the SBA of any of these rights could have a material adverse effect on the financial position, results of operations, cash flow and liquidity of MACC and MorAmerica Capital. If the SBA were to exercise its right to accelerate MorAmerica Capital's payment obligations under the outstanding SBA-guaranteed debentures, MorAmerica Capital may be required to liquidate some or all of its portfolio investments. Because most of its portfolio investments are not publicly traded, MorAmerica Capital may receive less than the carrying value for its portfolio investments in connection with such a forced sale. Therefore, the exercise by the SBA of any of these rights could have a material adverse effect on the financial position, results of operations, cash flow and liquidity of MACC and MorAmerica Capital and raises substantial doubt about the Company's ability to continue as a going concern. MorAmerica Capital is also currently limited by the SBA Regulations in the amount of distributions it may make to MACC.

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As of June 30, 2005, the SBA had not declared a default on MorAmerica Capital's outstanding SBA-guaranteed debentures, accelerated MorAmerica Capital's payment obligations thereunder as sought appointment of the SBA as receiver for MorAmerica Capital. As described above under "Historical and Recent Developments," after June 30, 2005, MorAmerica Capital received cash proceeds of \$6,187,051 from the sale of one portfolio investment. As a result of the sale of this portfolio investment, MorAmerica Capital's capital impairment as of July 31, 2005 ceased to exceed the maximum impairment percentage permitted under SBA Regulations and the rights of the SBA relating to an impairment condition were

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no longer available as of such date.

As of June 30, 2005, MACC's cash and cash equivalents totaled \$4,866,059. MACC has commitments for an additional \$3,500,000 and \$6,500,000 in SBA guaranteed debentures, which expire on September 30, 2005 and September 30, 2007, respectively. In connection with the settlement of arbitration proceedings, the SBA, MorAmerica Capital and three other SBICs entered into an agreement which obligates MorAmerica Capital and each of the other SBICs jointly and severally, to pay up to \$7,500,000 of the SBA's losses, if any, with respect to the outstanding SBA-guaranteed debentures of such SBICs. As a result of this agreement and MorAmerica Capital's capital impairment described above, MACC does not believe that MorAmerica Capital will have access to the SBIC capital program for the foreseeable future. Nevertheless, if SBA does not accelerate MorAmerica Capital's obligations under its outstanding SBA-guaranteed debentures and subject to the other risks and uncertainties described in this report on Form 10-Q, MACC believes that its existing cash and cash equivalents and other anticipated cash flows will provide adequate funds for MACC's anticipated cash requirements during the current fiscal year, including principal and interest payments on outstanding debentures, administrative expenses, and limited follow-on investments in its portfolio companies. MACC's investment objective is to invest \$885,000 in follow-on investments during the current fiscal year, subject to further adjustment based upon current economic and operating conditions.

Debentures payable are composed of \$24,790,000 in principal amount of SBA-guaranteed debentures issued by MACC's subsidiary, MorAmerica Capital, which mature as follows: \$2,500,000 in fiscal year 2009, \$9,000,000 in fiscal year 2010, \$5,835,000 in fiscal year 2011, and \$7,455,000 in fiscal year 2012. MorAmerica Capital repaid \$1,000,000 in principal amount of SBA-guaranteed debentures during the current year third quarter. As described above under "Historical and Recent Developments," MorAmerica Capital intends to prepay \$8,000,000 of its outstanding SBA-guaranteed debentures on September 1, 2005. As noted above, due to MorAmerica Capital's capital impairment as of June 30, 2005, SBA had the ability to accelerate MorAmerica Capital's obligations under the SBA-guaranteed debentures. MACC anticipates that MorAmerica Capital will not be able to refinance these debentures through the SBIC capital program when they mature. The following table shows our significant contractual obligations for the repayment of debt and other contractual obligations as of June 30, 2005:

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### Payments due by period

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	-----	-----	-----	-----	-----
SBA Debentures	\$ 24,790,000	---	---	4,000,000	20,790,000
Loan Agreement (1)	\$ 305,000	305,000	---	---	---

MACC currently anticipates that it will rely primarily on its current cash and cash equivalents and its cash flows from operations to fund its cash requirements during fiscal year 2005. Although management believes these sources will provide sufficient funds for MACC to meet its anticipated cash



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requirements, there can be no assurances that MACC's cash flows from operations will be as projected, or that MACC's cash requirements will be as projected.

### Portfolio Activity

MACC's primary business is investing in and lending to businesses through investments in subordinated debt (generally with detachable equity warrants), preferred stock and common stock. The total portfolio value of investments in publicly and non-publicly traded securities was \$33,812,441 at June 30, 2005 and \$33,218,084 at September 30, 2004. During the three months ended June 30, 2005, MACC invested \$117,000 in a follow-on investment in one existing portfolio company. Management views investment objectives for any given year as secondary in importance to MACC's overriding concern of investing in only those portfolio companies which satisfy MACC's investment criteria. MACC does not expect to make any investments in new portfolio companies during fiscal year 2005, but may invest up to \$885,000 in follow-on investments in existing portfolio companies, subject to further adjustment based on current economic and operating conditions. As of June 30, 2005, MACC has invested \$533,883 in follow-on investments fiscal year to date.

MACC frequently co-invests with other funds managed by MACC's investment advisor. When it makes any co-investment with these related funds, MACC follows certain procedures consistent with orders of the Securities and Exchange Commission for related party co-investments to reduce or eliminate conflict of interest issues. Of the \$117,000 invested during the current year third quarter, no funds represented co-investments with funds managed by MACC's investment advisor.

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(1) During the second quarter of fiscal year 2004, MACC entered into a loan agreement with one of its directors, Geoffrey T. Woolley, providing for advances of up to \$400,000 on a revolving credit basis through February 28, 2005. The outstanding principal amount of the loan as of March 1, 2005 will be due and payable in four equal installments on the first day of June, September, December, and March, commencing June 1, 2005 and concluding March 1, 2006. The payment obligations in the table set forth above are based on the amount outstanding under the loan agreement as of June 30, 2005. The entire unpaid amount of the loan is convertible into shares of MACC's common stock at the option of the lender. Effective July 20, 2005, following approval of the MACC Board of Directors on July 19, 2005, certain terms of the loan agreement were amended. On July 25, 2005, (i) Mr. Woolley elected to convert the entire outstanding principal balance of \$305,000 plus accrued interest of \$33,415.90 into 135,366 shares of MACC common stock, and (ii) the loan agreement was terminated.

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### Critical Accounting Policy

Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the average of the bid price on the three final trading days of the valuation period which is not materially different from the bid price on the final day of the period. Restricted and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors. Among the factors considered in determining the fair value of investments are the cost of

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the investment; developments, including recent financing transactions, since the acquisition of the investment; the financial condition and operating results of the investee; the long-term potential of the business of the investee; market interest rates on similar debt securities; and other factors generally pertinent to the valuation of investments. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

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

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

### Determination of Net Asset Value

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

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

MACC is exposed to market risk from changes in market interest rates that affect the fair value of MorAmerica Capital's debentures payable determined in accordance with Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value of MorAmerica Capital's outstanding debentures payable at June 30, 2005, was \$26,665,000, with a cost of \$24,790,000. Fair value of MorAmerica Capital's outstanding debentures payable is calculated by discounting cash flows through estimated maturity using a SBA borrowing rate currently available (5.89% at June 30, 2005) for debt of similar original maturity. None of MorAmerica Capital's outstanding debentures payable are publicly traded. Market risk is estimated as the potential increase in fair value resulting from a hypothetical 0.5% decrease in interest rates. Actual results may differ.

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June 30, 2005	
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Fair Value of Debentures Payable	\$ 26,665,000
Amount Above Cost	\$ 1,875,000
Additional Market Risk	\$ 595,000

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, in accordance with Item 307 of Regulation S-K promulgated under the Securities Act of 1933, as amended, the Chief Executive Officer and Chief Financial Officer of MACC (the "Certifying Officers") have conducted evaluations of MACC's disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed MACC's disclosure controls and procedures and have concluded that those disclosure controls and procedures are effective as of the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), each of the Certifying Officers executed an Officer's Certification included in this Quarterly Report on Form 10-Q.

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

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

As previously disclosed, MorAmerica Capital is a defendant in litigation filed by BFS Diversified Products, LLC in the Iowa District Court of Polk County, Iowa. There have been no material developments in this litigation since MACC filed its Quarterly Report on Form 10-Q for the three months ended March 31, 2005.

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

There are no items to report.

**Item 3. Defaults Upon Senior Securities**

There are no items to report.

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

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There are no items to report.

**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:

- 3(i).1(1) Certificate of Incorporation of MACC Private Equities Inc.
- 3(i).2(1) Articles of Amendment to the Certificate of Incorporation of MACC Private Equities Inc., dated March 11, 1997.
- 3(i).3 Articles of Amendment to the Certificate of Incorporation of MACC Private Equities Inc., as filed with the Delaware Secretary of State on August 3, 2004.
- 31.1 Section 302 Certification of David R. Schroder (CEO)
- 31.2 Section 302 Certification of Robert A. Comey (CFO)
- 32.1 Section 1350 Certification of David R. Schroder (CEO)
- 32.2 Section 1350 Certification of Robert A. Comey (CFO)

(1) Incorporated by reference to the Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, as filed with the Commission on May 14, 1997.

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**SIGNATURES**

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

MACC PRIVATE EQUITIES INC.

Date: 8/11/05  
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By: /s/ David R. Schroder  
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David R. Schroder, President

Date: 8/11/05  
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By: /s/ Robert A. Comey  
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Robert A. Comey, Chief Financial Officer