MACC PRIVATE EQUITIES INC
Form 10-Q
August 13, 2004

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2004

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

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 July 31, 2004, the registrant had issued and outstanding 2,329,255 shares of common stock.

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PART 1 -- FINANCIAL INFORMATION

Item 1. Financial Statements

MACC PRIVATE EQUITIES INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2004	September 3 2003
Assets		
Loans and investments in portfolio securities, at market or fair value:		
Unaffiliated companies (cost of $11,613,758 and $14,546,361)	$ 9,383,813	13,610,7
Affiliated companies (cost of $17,786,705 and $19,842,874)	19,175,441	20,068,6
Controlled companies (cost of $4,536,308 and $4,490,502)	4,614,758	4,921,7
Cash and money market accounts	7,884,630	722,6
Other assets, net	1,006,255	1,909,2
Total assets	$ 42,064,897	41,233,1
Liabilities and net assets		
Liabilities:		
Debentures payable, net of discount	$ 27,940,000	27,940,0
Deferred incentive fees	18,353	27,5
Accrued interest	657,214	185,6
Accounts payable and other liabilities	528,722	334,0
Total liabilities	29,144,289	28,487,2
Net assets:		
Common stock, $.01 par value per share; authorized 10,000,000 shares and 4,000,000 shares in 2004 and 2003, respectively; issued and outstanding 2,329,255 shares	23,293	23,2
Additional paid-in-capital	13,660,074	13,001,1
Unrealized depreciation on investments	(762,759)	(278,56
Total net assets	12,920,608	12,745,9
Total liabilities and net assets	$ 42,064,897	41,233,1
Net assets per share	$ 5.55	5.

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, 2004	For the three months ended June 30, 2003	For the nine months ended June 30, 2004
Investment income:			
Interest			
Unaffiliated companies	$ 154,724	171,562	531,052
Affiliated companies	184,070	245,839	538,066
Controlled companies	68,247	60,626	206,016
Other	12,690	6,998	37,057
Dividends			
Unaffiliated companies	---	74,141	78,204
Affiliated companies	250,335	131,756	592,602
Controlled companies	---	7,700	---
Processing fees	---	5,556	---
Other	2,507	11,556	10,166
Total investment income	672,573	715,734	1,993,163
Operating expenses:			
Interest expenses	531,714	550,420	1,595,142
Management fees	262,810	270,782	782,608
Professional fees	93,155	467,257	547,001
Other	87,462	245,389	1,002,948
Total operating expenses before management fees waived	975,141	1,533,848	3,927,699
Management fees waived	---	(61,420)	(87,092)
Net operating expenses	975,141	1,472,428	3,840,607
Investment expense, net before tax expense	(302,568)	(756,694)	(1,847,444)
Income tax expense	---	---	---
Investment expense, net	(302,568)	(756,694)	(1,847,444)
Realized and unrealized (loss) gain on investments:			
Net realized (loss) gain on investments (net incentive fees of $514,837 in 2004 and $0 in 2003):			
Unaffiliated companies	26,495	748,734	1,974,658

Affiliated companies	3,380	150,500	64,690
Controlled companies	---	---	466,991
Net change in unrealized appreciation/ depreciation on investments	(80,659)	(2,955,958)	(484,199)
Net (loss) gain on investments	(50,784)	(2,056,724)	2,022,140
Net change in net assets from operations	$ (353,352)	(2,813,418)	174,696

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, 2004	For the n months en June 30 2003
Cash flows from operating activities:		
Increase (decrease) in net assets from operations	$ 174,696	(4,060,8
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(2,022,140)	2,395,
Proceeds from disposition of and payments on loans and investments in portfolio securities	8,023,128	2,218,
Payments of incentive fees to investment advisor	(497,517)	
Purchases of loans and investments in portfolio securities	(481,934)	(977,0
Change in other assets	724,823	238,
Change in accrued interest, accounts payable, and other liabilities	657,083	777,
Other	583,800	(169,3
Total adjustments	6,987,243	4,483,
Net cash provided by operating activities	7,161,939	422,
Cash flows from financing activities:		
Payment of commitment fees	---	(65,0
Net cash used in financing activities	---	(65,0

Net increase in cash and cash equivalents	7,161,939	357,
Cash and cash equivalents at beginning of period	722,691	1,802,
Cash and cash equivalents at end of period	$ 7,884,630	2,160,
Supplemental disclosure of cash flow information - Cash paid during the period for interest	$ 1,048,948	1,071,
Supplemental disclosure of noncash investing and financing information -		
Assets received in exchange of securities	$ 196,687	448,
In-kind interest income received in the form of securities	323,820	251,

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 accounting principles generally accepted in the United States of America for investment companies. All material intercompany accounts and transactions have been eliminated in consolidation.

The financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto of MACC Private Equities Inc. and its Subsidiary as of and for the year ended September 30, 2003. The information reflects all adjustments consisting of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods. The results of the interim period reported are not necessarily indicative of results to be expected for the year. The balance sheet information as of September 30, 2003 has been derived from the audited balance sheet as of that date.

(2) Critical Accounting Policy

Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the 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; 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.

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(3) Loss Contingency

MorAmerica Capital is party to arbitration proceedings instituted by TransCore Holdings, Inc., a company (Buyer) seeking indemnification under the Stock Purchase Agreement (the Stock Purchase Agreement), pursuant to which MorAmerica Capital and certain other individuals and institutional investors (collectively, the Sellers) sold their interest in a former portfolio company investment (Portfolio Company). The arbitration proceedings are being administered by JAMS. Under the Stock Purchase Agreement, the Sellers agreed to indemnify Buyer for breaches of representations and warranties as to Portfolio Company made by the Sellers. Buyer claims that accounting irregularities at Portfolio Company resulted in a breach of the Sellers' representations and warranties. The Sellers have retained counsel and forensic accountants to defend the Sellers against Buyer's claim for indemnification. Following discovery, depositions and other preliminary proceedings, in June, 2003, the formal arbitration proceedings commenced and are being intensively contested by all parties. Based on the current schedule for the arbitration, a decision will not be rendered until at least September, 2004. Based on its evaluation of the Buyer's claim and discussions with external legal counsel, MACC believes that it is reasonably possible that a loss may have been incurred as a result of the indemnification claim, against which no accrual for loss has been made as of June 30, 2004, because the amount of the possible loss, and therefore its materiality to the financial statements, cannot be estimated. MorAmerica Capital intends to continue vigorously defending this arbitration. MorAmerica Capital received approximately $939,000 of proceeds from the sale of the Portfolio Company. MorAmerica Capital owned debt securities of Buyer with a face value of $508,761 and warrants with a cost of $24,000 received as part of the sale. Buyer has defaulted on interest payments due on these debt securities. On March 31, 2003, MorAmerica Capital reduced the valuation of the debt securities by $254,380 in light of the interest default and information regarding the related dispute as of that date. On June 30, 2003, MorAmerica Capital further reduced the valuation of these debt securities by $254,380 to $1 and reduced the valuation of the warrants to zero based upon the continuing interest default and additional information regarding the related dispute as of that date. Subsequent to December 31, 2003, Buyer refinanced certain of its obligations, including the debt securities held by MorAmerica Capital, and the principal amount of these debt securities and accrued interest has been deposited in an escrow account pending conclusion of the arbitration proceedings.

In a related development, MorAmerica Capital and another small business investment company, NDSBIC, L.P., which co-invested in Portfolio Company, filed suit on December 24, 2003 in the United States District Court for the Northern District of Texas against Patton Boggs LLP and Charles P. Miller, Esq., of Patton Boggs alleging legal malpractice and breach of fiduciary duty. Patton Boggs and Mr. Miller represented MorAmerica Capital and NDSBIC in connection with their investment in the Portfolio Company and the subsequent sale of the Portfolio Company to Buyer. Effective June 30, 2004, Patton Boggs executed a tolling agreement with MorAmerica Capital and NDSBIC, L.P. waiving any statue of limitations defense until the agreement is cancelled by either party with 30 days notice. This litigation was then dismissed without prejudice. MorAmerica Capital intends to monitor the outcome of the TransCore arbitration and then determine whether to re-institute this litigation.

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, 2003, 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 failure to achieve annual investment level objectives, changes in prevailing market interest rates, contractions in the markets for corporate acquisitions and initial public offerings, and an adverse outcome on the pending arbitration proceedings against MorAmerica Capital. MACC further cautions that such factors are not exhaustive or exclusive. MACC does not undertake to update any forward-looking statement which may be made from time to time by or on behalf of MACC.

Results of Operations

MACC's investment income includes income from interest, dividends and fees. Investment expense, net represents total investment income minus total 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. 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, 2004 Compared to Third Quarter Ended June 30, 2003

	For the three months ended June 30, 2004	2003	Change
Investment income	$ 672,573	715,734	(43,161)
Net operating expenses	(975,141)	(1,472,428)	497,287
Investment expense, net	(302,568)	(756,694)	454,126
Net realized gain on investments	29,875	899,234	(869,359)
Net change in unrealized appreciation/ depreciation on investments	(80,659)	(2,955,958)	2,875,299
Net loss on investments	(50,784)	(2,056,724)	2,005,940
Net change in net assets from operations	$ (353,352)	(2,813,418)	2,460,066
Net asset value:			
Beginning of period	$ 5.70	6.74	
End of period	$ 5.55	4.98	

Investment Income

During the current year third quarter, total investment income was $672,573, a decrease of $43,161, or 6%, from total investment income of $715,734 for the prior year third quarter. In the current year third quarter as compared to the prior year third quarter, interest income decreased $65,294, or 13%, dividend income increased $36,738, or 17%, processing fees decreased $5,556, or 100%, and other income decreased $9,049, or 78%. The decrease in interest income is mainly due to the receipt of $2,159,800 in principal payments on five portfolio investments during the current fiscal year. In the current year third quarter, MACC received dividends on six existing portfolio companies, as compared to dividend income received in the prior year third quarter on seven existing portfolio companies. The distributions from limited liability companies in the current year third quarter were larger than in the prior year third quarter. Processing fees decreased due to no new or follow-on portfolio company investments made in the current year third quarter, compared to one restructure of an existing portfolio company investment in which MACC received a processing fee at closing in the prior year third quarter. The decrease in other income is due to advisory fees received from one portfolio company in the prior year third quarter.

Operating Expenses

Total operating expenses for the third quarter of the current year were $975,141, a decrease of $497,287, or 34%, as compared to total operating expenses for the prior year third quarter of $1,472,428. Interest expense decreased $18,706, or 3%, in the current year third quarter due to a reduction in the interest rate on $2,150,000 of SBA-guaranteed debentures to 3.125% in the current year second quarter, from 6.12% in the prior year third quarter. Following the expiration of the terms of the investment advisory agreements between each of MACC and MorAmerica Capital and InvestAmerica Investment Advisors, Inc. ("InvestAmerica"), MACC and MorAmerica Capital each entered into an investment advisory agreement with Atlas Management Partners, LLC (the "Investment Advisor"). Contemporaneously with this change in investment advisor, MACC, MorAmerica Capital, the Investment Advisor and InvestAmerica entered into an a agreement pursuant to which InvestAmerica will act as a subadvisor (the "Subadvisor") with respect to the companies' existing investment portfolio as of the transition date. Management fees increased $53,448, or 26%, in the current year third quarter due to a voluntary reduction in management fees taken by InvestAmerica in the prior year third quarter which terminated on February 29, 2004. Professional fees decreased $374,102, or 80%, in the current year third quarter primarily due to decreased legal expenses in connection with arbitration proceedings related to the sale of a former portfolio company and legal and accounting fees to comply with new securities and exchange corporate governance requirements in the prior year third quarter. Professional fees are expected to be high in the next three to six months due to the item identified in Note 3 to the Unaudited Condensed Consolidated Financial Statements and legal advice in implementing the future direction of MACC. Other expenses decreased $157,927, or 64%, in the current year third quarter as compared to the prior year third quarter mainly due to the change in the other assets loss provision. The other assets loss provision was higher in the prior year third quarter because an additional loss provision of $205,433 was recorded with respect to other securities which had been classified as other assets.

Investment Expense, Net

For the current year third quarter, MACC recorded investment expense, net of $302,568, as compared to investment expense, net of $756,694 during the prior year third quarter.

Net Realized Gain (Loss) on Investments

During the current year third quarter, MACC recorded net realized gain on investments of $29,875, as compared with net realized gain on investments of $899,234 during the prior year third quarter. In the current year third quarter, MACC realized an additional gain of $3,380 from the sale of one portfolio company which occurred in the current year second quarter and the adjustment of $26,495 in deferred incentive fees due to the revaluation of the deferred gain. 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.

Net Change in Unrealized Appreciation/Depreciation of Investments

MACC recorded net change in unrealized appreciation/depreciation on investments of ($80,659) during the current year third quarter, as compared to ($2,955,958) during the prior year third quarter. This net change in unrealized appreciation/depreciation on investments of ($80,659) is the net effect of increases in fair value of three portfolio companies totaling $652,732 and decreases in fair value of four portfolio companies totaling $733,391.

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 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 Net Assets from Operations

MACC experienced a decrease of $353,352 in net assets at the end of the third quarter of fiscal year 2004, and the resulting net asset value per share was $5.55 as of June 30, 2004, as compared to $5.47 as of September 30, 2003. General economic conditions have recently appeared to have a positive impact on the operating results and financial condition of a number of MACC's portfolio companies and the majority of MACC's thirty-two operating portfolio companies continue to be valued at cost or above. MACC has ten portfolio investments valued at cost, has recorded unrealized appreciation on nine portfolio investments and has recorded unrealized depreciation on thirteen portfolio investments.

General economic conditions adversely affected a number of MACC's portfolio companies during fiscal year 2003, which contributed to a decline in MACC's operating performance and liquidity during the period. In an effort to improve operating performance and liquidity in the current fiscal year, MACC projected no new borrowings under the SBIC leverage program in the fiscal year 2004 budget and has actively pursued opportunities to liquidate a number of portfolio investments. As a result of these efforts and improvements in general economic conditions, MACC's operating performance and liquidity through the first nine months of the current fiscal year have significantly improved, as compared to the comparable period during fiscal year 2003. Management anticipates that if general economic conditions continue to be conducive to portfolio investment liquidity events, subject to the risks described in this report, MACC will experience further improvements in its operating performance.

Nine Months Ended June 30, 2004 Compared to Nine Months Ended June 30, 2003

	For the nine months ended June 30,		
	2004	2003	Change
Investment income	$ 1,993,163	1,965,985	27,178
Net operating expenses	(3,840,607)	(3,630,803)	(209,804)
Investment expense, net	(1,847,444)	(1,664,818)	(182,626)

Net realized gain (loss) on investments	2,506,339	(1,893,048)	4,399,387
Net change in unrealized appreciation/ depreciation on investments	(484,199)	(502,937)	18,738
Net gain (loss) on investments	2,022,140	(2,395,985)	4,418,125
Net change in net assets from operations	$ 174,696	(4,060,803)	4,235,499
Net asset value:			
Beginning of period	$ 5.47	6.72	
End of period	$ 5.55	4.98	

Investment Income

During the current year nine-month period, total investment income was $1,993,163, an increase of $27,178, or 1%, from total investment income of $1,965,985 for the prior year nine-month period. In the current year nine-month period as compared to the prior year nine-month period, interest income decreased $81,976, or 6%, dividend income increased $219,311, or 49%, processing fees decreased $22,741, or 100%, and other income decreased $87,416, or 90%. The decrease in interest income is the net result of only three follow-on investments made during the current year nine-month period, one investment which converted all interest accrued and reserved to an equity investment, the placing of debt portfolio securities issued by three portfolio companies on non-accrual of interest status in the current year nine-month period which were accruing interest in the prior year nine-month period and the receipt of $2,159,800 in principal payments on five portfolio investments. In the current year nine-month period and in the prior year nine-month period, MACC received dividends on eight existing portfolio companies, however dividend payments were greater in the current year nine-month period. Processing fees decreased due to no fees received on the three follow-on investments made in the current year nine-month period, compared to one follow-on investment and two existing portfolio company investments in which MACC received processing fees in the prior year nine-month period. The period-over-period decrease in other

income is due to a decrease in advisory fees received from two portfolio companies in the prior year nine-month period.

Operating Expenses

Total operating expenses for the nine-month period of the current year were $3,840,607, an increase of $224,804, or 6%, as compared to total operating expenses for the prior year nine-month period of $3,615,803. Interest expense decreased $56,119, or 3%, in the current year nine-month period due to a reduction in the interest rate on $2,150,000 of SBA-guaranteed debentures to 3.125% in the current year nine-month period, from 6.12% in the prior year nine-month period. Management fees increased $1,724, or 1%, in the current year nine-month period mainly due to the termination of the agreement with InvestAmerica to a voluntary, temporary reduction in management fees to reduce the expenses of MACC. This voluntary, temporary reduction in management fees terminated at February 29, 2004. Professional fees decreased $250,523, or 31%, in the current year nine-month period primarily due to decreased legal expenses in connection with arbitration proceedings related to the sale of a former portfolio company and various corporate governance changes. Professional fees are expected to be high for at least the next three to six months as a result of the item identified in Note 3 to the Unaudited Condensed Consolidated Financial Statements and legal advice in implementing the future direction of MACC. Other expenses increased $529,722, or 112%, in the current year nine-month period as compared to the prior year nine-month period mainly due to the change in the other assets loss provision. The other assets loss provision increased because depreciated portfolio securities were reclassified as other assets in the current year nine-month period, which required the unrealized depreciation on such assets in the amount of $532,760 to be recorded as other assets loss provision, and because an additional loss provision of $197,727 was recorded in the current year nine-month period with respect to other securities which had been classified as other assets in a prior period.

Investment Expense, Net

For the current year nine-month period, MACC recorded investment expense, net of $1,847,444, as compared to investment expense, net of $1,664,818 during the prior year nine-month period.

Net Realized Gain (Loss) on Investments

During the current year nine-month period, MACC recorded net realized gain on investments of $2,506,339, as compared with net realized loss on investments of $1,893,048 during the prior year nine-month period. In the current year nine-month period, MACC realized a gain of $328,968 from the sale of warrants of one portfolio company, and $3,024,756 from the sale of equity interests of three portfolio companies of which $3,259,790 was previously recorded as unrealized appreciation. MACC also realized a loss of $847,385 from the write-off of one portfolio company of which $847,384 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 by appropriately realizing gains in the disposition of securities and investing in new portfolio investments.

Net Change in Unrealized Appreciation/Depreciation of Investments

MACC recorded net change in unrealized appreciation/depreciation on investments of ($484,199) during the current year nine-month period, as compared to ($502,937) during the prior year nine-month period. This net change in unrealized appreciation/depreciation on investments of ($484,199) is the net effect of increases in fair value of seven portfolio companies totaling $2,166,255, decreases in fair value of four portfolio companies totaling $770,809, the reversal of $3,259,789 of appreciation resulting from the sale of warrants of one portfolio investment and the sale of equity interests of three portfolio investments referenced above, the reversal of $847,384 of depreciation resulting from the write-off of the investment in one portfolio investment, and the reversal of $532,760 of depreciation resulting from the restructure of one portfolio investment to other assets.

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").

MACC, through its wholly-owned subsidiary, MorAmerica Capital, from time to time may seek to procure additional capital through the SBIC leverage program to fund a portion of its investment capital requirements. At present, committed leverage with a commitment period of up to four years is available through the SBIC leverage program and MACC anticipates that leverage may be available in future periods. MACC has not currently budgeted to borrow any funds through the SBIC leverage program during fiscal year 2004.

As of June 30, 2004, MACC's cash and money market accounts totaled $7,884,630. 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. Subject to the risks and uncertainties described in this report on Form 10-Q, MACC believes that its existing cash and money market accounts, the $10,000,000 of SBA commitments, and other anticipated cash flows, will provide adequate funds for MACC's anticipated budgeted cash requirements during the current fiscal year, including portfolio investment activities, principal and interest payments on outstanding debentures payable and administrative expenses. MACC's budgeted investment objective is to invest $2,500,000 in new and follow-on investments during the current fiscal year. Based upon current economic and operating conditions, actual investment results for fiscal year ending September 30, 2004 may be somewhat below budget. MACC has invested $481,934 in follow-on investments through June 30, 2004.

Debentures payable are composed of $27,940,000 in principal amount of SBA-guaranteed debentures issued by MACC's subsidiary, MorAmerica Capital. Subject to the risks and uncertainties described in this report on Form 10-Q, it is anticipated MorAmerica Capital will be able to roll over these debentures with new ten-year debentures when they mature. The following table shows our significant contractual obligations for the repayment of debt and other contractual obligations as of June 30, 2004.

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
		Payments due by period			
SBA Debentures	$ 27,940,000	2,150,000	---	2,000,000	23,790,000
Loan Agreement[1]	$ 270,000	67,500	202,500	---	---

MACC currently anticipates that it will rely primarily on its current cash and money market accounts and its cash flows from operations to fund its investment activities and other cash requirements during the remainder of fiscal year 2004. Although management believes these sources will provide sufficient funds for MACC to meet its fiscal 2004 investment level objective and other anticipated cash requirements, there can be no assurances that MACC's cash flows from operations will be as projected, or that MACC's cash requirements will be as projected. MACC's cash flow has been negatively affected by expenses associated with the pending arbitration proceedings described in Note 3 to the Unaudited Condensed Consolidated Financial Statements. An adverse outcome on such arbitration proceedings could further adversely affect MACC's cash flow.

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, 2004, the capital of MorAmerica Capital was impaired less than the maximum impairment percentage permitted under SBA Regulations. If MorAmerica Capital continues to experience negative operating results, no assurances can be given that MorAmerica Capital will continue to be less than the maximum impairment percentage in future periods. If MorAmerica Capital would exceed the maximum impairment percentage in future periods, a number of events could occur which could have a material adverse effect on the financial position, results of operations, cash flow and liquidity of MACC and MorAmerica Capital.

MorAmerica Capital is currently limited by the SBA Regulations in the amount of distributions it may make to MACC. MACC historically has relied in large part on distributions from MorAmerica Capital to fund its operating expenses and other cash requirements. While the paragraphs above describe MACC's liquidity on a consolidated basis, due to current limitations on MorAmerica Capital's ability to make distributions to MACC, MACC has limited liquidity to pay its holding company operating expenses. During the second quarter of the current fiscal year, MACC entered into a loan agreement providing for advances of up to $400,000 through a loan made by one of its directors. MACC obtained $200,000 and $70,000 under this loan agreement in the second quarter and third quarter, respectively, of the current fiscal year. It is anticipated that no additional drawings will be

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[1] During the second quarter of the current fiscal year, 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, 2004. The entire unpaid amount of the loan is convertible into shares of MACC's common stock at the option of the lender.

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necessary in the fourth quarter of the current fiscal year. In addition to utilizing this loan facility, MACC is currently evaluating a number of alternatives to provide for its liquidity, including one or more of the capital transactions approved by shareholders at the 2004 annual meeting.

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 $33,174,012 at June 30, 2004 and $38,601,177 at September 30, 2003. During the three months ended June 30, 2004, MACC made no new or follow-on investments. 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's budgeted investment objective for fiscal year 2004 is to invest $2,500,000 in new and follow-on investments. Based on current economic and operating conditions, actual results for fiscal year ending September 30, 2004 may be somewhat below budget. MACC has invested $481,934 in follow-on investments through June 30, 2004.

MACC has frequently co-invested with other funds managed by the Subadvisor. 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. During the current year third quarter no co-investments were made with funds managed by the Subadvisor.

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; the financial condition and operating results of the investee; the long-term potential of the business of the investee; 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 the market price of publicly traded equity securities held from time to time in the MACC consolidated investment portfolio. At June 30, 2004, MACC held only one publicly traded equity security in its consolidated investment portfolio, and the fair value of that portfolio investment was not material. Therefore, a hypothetical 10% adverse change in quoted market price of that portfolio investment would not be material.

MACC is also 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, 2004, was $30,341,000, with a cost of $27,940,000. Fair value of MorAmerica Capital's outstanding debentures payable is calculated by discounting cash flows through estimated maturity using the borrowing rate currently available to MorAmerica Capital for debt of similar original maturity. None of MorAmerica Capital's outstanding debentures payable are publicly traded. Market risk is estimated as the potential increase in fair value resulting from a hypothetical 0.5% decrease in interest rates. Actual results may differ.

	June 30, 2004
Fair Value of Debentures Payable	$30,341,000
Amount Above Cost	$2,401,000
Additional Market Risk	$719,000

Item 4. Controls and Procedures

As of the end of the period coverd 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, 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 over financial reporting 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

MorAmerica Capital is party to arbitration proceedings instituted by TransCore Holdings, Inc., a company (Buyer) seeking indemnification under the Stock Purchase Agreement (the Stock Purchase Agreement), pursuant to which MorAmerica Capital and certain other individuals and institutional investors (collectively, the Sellers) sold their interest in a former portfolio company investment (Portfolio Company). The arbitration proceedings are being administered by JAMS. Under the Stock Purchase Agreement, the Sellers agreed to indemnify Buyer for breaches of representations and warranties as to Portfolio Company made by the Sellers. Buyer claims that accounting irregularities at Portfolio Company resulted in a breach of the Sellers' representations and warranties. The Sellers have retained counsel and forensic accountants to defend the Sellers against Buyer's claim for indemnification. Following discovery, depositions and other preliminary proceedings, in June, 2003, the formal arbitration proceedings commenced and are being intensively contested by all parties. Based on the current schedule for the arbitration, a decision will not be rendered until at least September, 2004. Based on its evaluation of the Buyer's claim and discussions with external legal counsel, MACC believes that it is reasonably possible that a loss may have been incurred as a result of the indemnification claim, against which no accrual for loss has been made as of June 30, 2004, because the amount of the possible loss, and therefore its materiality to the financial statements, cannot be estimated. MorAmerica Capital intends to continue vigorously defending this arbitration. MorAmerica Capital received approximately $939,000 of proceeds from the sale of the Portfolio Company. MorAmerica Capital owned debt securities of Buyer with a face value of $508,761 and warrants with a cost of $24,000 received as part of the sale. Buyer has defaulted on interest payments due on these debt securities. On March 31, 2003, MorAmerica Capital reduced the valuation of these debt securities by $254,380 in light of the interest default and information regarding the related dispute as of that date. On June 30, 2003, MorAmerica Capital further reduced the valuation of these debt securities by $254,380 to $1 and reduced the valuation of the warrants to zero based upon the continuing interest default and additional information regarding the related dispute as of that date. Subsequent to December 31, 2003, Buyer refinanced certain of its obligations, including the debt securities held by MorAmerica Capital, and the principal amount of these debt securities and accrued interest has been deposited in an escrow account pending conclusion of the arbitration proceedings.

In a related development, MorAmerica Capital and another small business investment company, NDSBIC, L.P., which co-invested in Portfolio Company, filed suit on December 24, 2003 in the United States District Court for the Northern District of Texas against Patton Boggs LLP and Charles P. Miller, Esq., of Patton Boggs alleging legal malpractice and breach of fiduciary duty. Patton Boggs and Mr. Miller represented MorAmerica Capital and NDSBIC in connection with their investment in the Portfolio Company and the subsequent sale of the Portfolio Company to Buyer. Effective June 30, 2004, Patton Boggs executed a tolling agreement with MorAmerica Capital and NDSBIC L.P. waiving any statute of limitations defense until the agreement is cancelled by either party with 30 days notice. This litigation was then dismissed without prejudice. MorAmerica Capital intends to monitor the outcome of the TransCore arbitration and then determine whether to re-institute this litigation.

BFS Diversified Products, LLC ("BFS") was a supplier to Water Creations, Inc. ("Water Creations"), a former portfolio company of MorAmerica Capital. Water Creations went out of business in December, 2002, at which time BFS was owed approximately $900,000 for products sold to Water Creations. On March 26, 2004, BFS filed suit in the Iowa District Court of Polk County, Iowa against board members of and investors in Water Creations, including MorAmerica Capital, David Schroder (Chief Financial Officer of MACC), and InvestAmerica Venture Group, Inc., an affiliate of the Subadvisor. BFS has sued the defendants for fraud, fraudulent transfer, breach of fiduciary duty, civil conspiracy, breach of contract, conversion, and alter ego/piercing corporate veil. The central allegation of the case is that the defendants knew that Water Creations was insolvent and owed a duty to BFS to protect it from selling to Water Creations under these circumstances. The defendants have hired counsel and intend to vigorously defend this litigation.

Item 2. Changes in Securities

There are no items to report.

Item 3. Defaults Upon Senior Securities

There are no items to report.

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

There are no items to report.

Item 5. Other Information

Pending SBA Approval of Atlas

As noted, MorAmerica Capital is a small business investment company regulated by the U.S. Small Business Administration. In anticipation of the changes to the Board of Directors of MACC and MorAmerica and the change in investment advisors, Atlas periodically notified the SBA of the proposed changes and, as required by SBA regulations, submitted the MorAmerica Capital Investment Advisory Agreement to the SBA for approval on January 29, 2004. Section 107.400 of the SBA regulations requires prior approval by the SBA of an event that results in a change of control by any persons not previously approved as SBIC management by the SBA. Because Mr. Madsen and a majority of Atlas members are approved SBIC managers, Atlas did not view the change of investment advisors as a change of control requiring SBA approval. The SBA has taken the position that both the MorAmerica Investment Advisory Agreement and the change of control require SBA approval and the review process on both issues is proceeding. However, the SBA has indicated that due to a backlog of work by the relevant SBA internal committee, this process may take some time. Nonetheless, the SBA has notified MorAmerica Capital in writing that (i) Mr. Efstratis, Mr. Stevens, Mr. Bridgewater and Mr. Madsen have SBA's approval as management of MorAmerica Capital; and (ii) MorAmerica Capital's SBA Account

Executive has recommended approval of the MorAmerica Capital Investment Advisory Agreement and prospects are positive for final official approval. The SBA has made several comments on the MorAmerica Capital Investment Advisory Agreement that are technical in nature. When finally agreed with the SBA, these changes will be submitted to a meeting of MACC shareholders for approval.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

The following exhibits are filed with this quarterly report on Form 10-Q:

31.1 Section 302 Certification of Kent I. Madsen (CEO)

31.2 Section 302 Certification of David R. Schroder (CFO)

32.1 Section 1350 Certification of Kent I. Madsen (CEO)

32.2 Section 1350 Certification of David R. Schroder (CFO)

(b) Reports on Form 8-K

MACC filed no current reports on Form 8-K during the quarter ended June 30, 2004.

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:	8/13/04	By:	/s/ Kent I. Madsen
			Kent I. Madsen, President
Date:	8/13/04	By:	/s/ David R. Schroder
			David R. Schroder, Chief Financial Officer

EXHIBIT INDEX

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