

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

MACC PRIVATE EQUITIES INC  
Form 10-Q  
May 14, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2002

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

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.

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At April 30, 2002, the registrant had issued and outstanding 2,329,255 shares of common stock.

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## ITEM 1. FINANCIAL STATEMENTS

### MACC PRIVATE EQUITIES INC. AND SUBSIDIARY CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2002
	-----
<b>Assets</b>	
Loans and investments in portfolio securities, at market or fair value:	
Unaffiliated companies (cost of \$19,102,153 and \$17,375,283)	\$ 17,387,220
Affiliated companies (cost of \$19,391,856 and \$22,002,764)	17,815,119
Controlled companies (cost of \$5,053,001 and \$3,005,000)	5,493,001
Cash and money market accounts	2,902,164
Certificates of deposit	435,303
Other assets, net	1,753,132
	-----
Total assets	\$ 45,785,939
	=====
<b>Liabilities and net assets</b>	
<b>Liabilities:</b>	
Debentures payable, net of discount	\$ 26,975,734
Incentive fees payable	64,085
Accrued interest	155,306
Accounts payable and other liabilities	59,861
	-----
Total liabilities	27,254,986
	-----
<b>Net assets:</b>	
Common stock, \$.01 par value per share; authorized 4,000,000 shares; issued and outstanding 2,329,255 shares	23,293
Additional paid-in-capital	21,359,330
Unrealized depreciation on investments	(2,851,670)
	-----
Total net assets	18,530,953
	-----
Total liabilities and net assets	\$ 45,785,939
	=====
Net assets per share	\$ 7.96
	=====

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 March 31, 2002 -----	For the three months ended March 31, 2001 -----	For the months e March 200 -----
Investment income:			
Interest			
Unaffiliated companies	\$ 128,353	248,815	346,8
Affiliated companies	217,116	195,545	430,6
Controlled companies	77,112	80,188	150,2
Other	77,529	60,564	96,2
Dividends			
Unaffiliated companies	63,477	--	118,7
Affiliated companies	58,572	63,535	139,1
Controlled companies	7,004	110,611	7,0
Processing fees	30,331	35,051	59,5
Other	33,889	--	51,3
Total income	693,383	794,309	1,399,7
Operating expenses:			
Interest	464,404	449,967	913,6
Management fees	278,772	266,143	547,7
Professional fees	36,009	29,913	78,4
Other	129,832	107,753	208,7
Total operating expenses	909,017	853,776	1,748,5
Investment expense, net before tax expense	(215,634)	(59,467)	(348,7
Income tax expense	--	(70,000)	--
Investment expense, net	(215,634)	(129,467)	(348,7
Realized and unrealized gain (loss) on investments:			
Net realized gain (loss) on investments			
Unaffiliated companies	313,450	2,881,547	337,4
Affiliated companies	(717,085)	(1,225,015)	(2,956,4
Net change in unrealized appreciation/ depreciation on investments	(263,859)	(2,075,413)	1,455,8
Net loss on investments before income tax expense	(667,494)	(418,881)	(1,163,2
Income tax expense	--	(680,000)	--
Net loss on investments	(667,494)	(1,098,881)	(1,163,2
Net change in net assets from operations	\$ (881,128)	(1,228,348)	(1,512,0

=====

See accompanying notes to unaudited condensed consolidated financial statements.

MACC PRIVATE EQUITIES INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

	For the six months ended March 31, 2002 -----
Cash flows from operating activities:	
Decrease in net assets from operations	\$ (1,512,018) -----
Adjustments to reconcile decrease in net assets from operations to net cash used in operating activities:	
Net realized and unrealized loss on investments	1,163,257
Change in accrued interest, incentive fees payable, accounts payable and other liabilities	(101,272)
Other	30,169 -----
Total adjustments	1,092,154 -----
Net cash used in operating activities	(419,864) -----
Cash flows from investing activities:	
Proceeds from disposition of and payments on loans and investments in portfolio securities	2,536,364
Purchases of loans and investments in portfolio securities	(5,835,752)
Proceeds from disposition of short-term investments	92,500
Purchases of short-term investments	(116,678) -----
Net cash (used in) provided by investing activities	(3,323,566) -----
Cash flows from financing activities:	
Proceeds from debt issuance, net of commitment fees	5,850,000
Payments for fractional shares in connection with stock split	--
Payments for commitment fees	-- -----
Net cash provided by (used in) financing activities	5,850,000 -----

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Net increase in cash and cash equivalents	2,106,570
Cash and cash equivalents at beginning of period	795,594
	-----
Cash and cash equivalents at end of period	\$ 2,902,164
	=====
Supplemental disclosure of cash flow information -	
Cash paid during the period for interest	\$ 812,787
	=====
Supplemental disclosure of noncash investing and financing information -	
Debt issuance costs financed with debentures payable	\$ 150,000
Assets received in exchange of securities	115,805
	=====

See accompanying notes to unaudited condensed consolidated financial statements.

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MACC PRIVATE EQUITIES INC.

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Basis of Presentation

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

The financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto of MACC Private Equities Inc. and its Subsidiary as of and for the year ended September 30, 2001. 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, 2001 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. 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

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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.

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

MACC has received a notice from a company (Buyer) seeking indemnification under a Stock Purchase Agreement (the Stock Purchase Agreement) pursuant to which MACC and certain other individuals and institutional investors (the Sellers) sold their interest in a former portfolio company investment (Portfolio Company). 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. In its notice of indemnification, Buyer claims that accounting irregularities at Portfolio Company resulted in a breach of the Sellers' representations and warranties. MACC and the Sellers have retained counsel and forensic accountants and are engaged with Buyer in an informal process of evaluating the strength of the Buyer's claim as well as all available defenses. If this informal process does not result in a settlement, it is likely that the indemnification claim will be subject to an arbitration proceeding, in accordance with the terms of the Stock Purchase Agreement. While Equities believes that it is reasonably possible that a loss may have been incurred as a result of the indemnification claim, as of March 31, 2002 the amount of the possible loss, and therefore its materiality to the financial statements, cannot be estimated.

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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

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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, 2001, 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, 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.

### RESULTS OF OPERATIONS

Second Quarter and Six Months Ended March 31, 2002, Compared to Second Quarter and Six Months Ended March 31, 2001

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

During the current year second quarter total investment income of \$693,383 was approximately 13% lower than total investment income of \$794,309 for the prior year second quarter. In the current year second quarter as compared to the prior year second quarter, interest income decreased \$85,002, dividend income decreased \$45,093, processing fees decreased \$4,720 and other income increased \$33,889. The decrease in interest income is due to five investments which are on non-accrual of interest status in the current year second quarter as compared to three investments in the prior year second quarter and also the lower interest rate earned on cash on hand held in interest earning investments. The receipt of dividend income is based primarily on the performance of the limited liability companies in MACC's portfolio and the timing of when these companies make distributions. In the current year second quarter and in the prior year second quarter dividends were received by MACC on four portfolio companies. Processing fees decreased due to only one follow-on portfolio company investment in the current year second quarter in which MACC received processing fees at the closing and a processing fee received on the restructuring of an existing portfolio company compared to one new portfolio investment and two follow-on portfolio investments in the prior year second quarter in which MACC received a processing fee at closing. The increase in other income is due to the receipt of advisory fees from one portfolio company and the increase in valuation of a receivable.

During the current year six-month period, total income of \$1,399,743 was a decrease of \$202,995, or 13%, over total income of \$1,602,738 in the prior year six-month period. For the current year six-month period as compared to the prior year six-month period, interest income decreased to \$1,023,947 from \$1,186,979, dividend income decreased to \$264,884 from \$375,844, processing fee income increased to \$59,591 from \$38,915 and other income increased to \$51,321



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from \$1,000. The decrease in interest income is due to the reasons stated above for the current year second quarter. In the current year six-month period, dividend income decreased because dividends were received on five portfolio companies as compared to dividends received on eight portfolio companies in the prior year six-month period. Processing fees increased due to one new portfolio company investment made in the current year, a restructuring of an existing portfolio company investment and a follow-on investment in which MACC received processing fees at the closing compared to one new portfolio company investment and three smaller follow-on portfolio investments made in the prior year six-month period in which MACC received a processing fee at closing. Other income increased due to the receipt of advisory fees from one portfolio company, reimbursement of legal fees expensed in the prior fiscal year and the increase in valuation of a receivable.

Total operating expenses for the second quarter of the current year were \$909,017, an increase of approximately 6%, as compared to total operating expenses for the prior year second quarter of \$853,776. Interest expense increased to \$464,404 in the current year second quarter as compared to \$449,967 in the prior year second quarter due to \$6,645,000 of additional borrowings of SBA-guaranteed debentures since the end of the prior year second quarter. Management fees increased to \$278,772 in the current year second quarter as compared to \$266,143 in the prior year second quarter. Professional fees increased to \$36,009 in the current year second quarter from \$29,913 in the prior year second quarter. Professional fees are expected to be higher for at least the next three months as a result of the item identified in Note 3 to the Unaudited Condensed Consolidated Financial Statements. Other expenses increased to \$129,832 from \$107,753 in the current year second quarter as compared to the prior year second quarter mainly due to the increase in stock market listing fees and the timing of payments for administrative expenses.

For the current year second quarter and six-month period, MACC recorded a net investment expense of \$215,634 and \$348,761, respectively, as compared to net investment expense of \$129,467 and \$119,346 during the prior year second quarter and six-month period, respectively.

During the current year second quarter and six-month period, MACC recorded net realized loss on investments of \$403,635 and \$2,619,085, respectively, as compared with net realized gain on investments of \$1,656,532 and \$3,083,967 during the prior year second quarter and six-month period, respectively. In the current year second quarter, MACC realized a gain of \$851,308 in two portfolio companies investments and realized a loss of \$1,254,943 from the write-off of one portfolio company of which \$1,254,902 was previously recorded as unrealized depreciation. Management does not attempt to maintain a comparable level of realized gains from year to year or 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 recorded net change in unrealized appreciation/depreciation on investments of (\$263,859) during the current year second quarter, as compared to (\$2,075,413) during the prior year period. This net change in unrealized appreciation/depreciation on investments of (\$263,859) is the net effect of increases in fair value of seven portfolio companies totaling \$803,078, decreases in fair value of six portfolio companies totaling \$1,475,689, the reversal of appreciation of \$538,000 in one portfolio investment in which the portfolio company was a part of a recapitalization resulting in a realized gain,

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the reversal of appreciation of \$308,150 in one portfolio investment in which an outstanding cash escrow was received, and the reversal of \$1,254,902 of depreciation on the write-off of the investment in one portfolio company referenced above. For the current year six-month period the net change in unrealized appreciation/depreciation on investments was \$1,455,828, as compared to (\$5,491,591) during the prior year six-month period. The current year six-month net change in unrealized appreciation/depreciation on investments of \$1,455,828 is the net effect of increases of fair value of nine portfolio companies totaling \$1,094,952, decreases in fair value of five portfolio companies totaling \$2,503,309, the reversal of appreciation of \$538,000 in one portfolio investment in which the portfolio company was a part of a recapitalization resulting in a realized gain, the reversal of appreciation of \$102,716 in one portfolio investment in which an outstanding cash escrow was received, and the reversal of \$3,504,901 of depreciation on the write-off of the investment in two portfolio companies.

Net change in unrealized appreciation/depreciation on investments represents the change for the period in the unrealized appreciation on MACC's total investment portfolio net of unrealized depreciation on MACC's total investment portfolio. Generally, when MACC increases the fair value of a portfolio investment above its cost, the unrealized appreciation item for the portfolio as a whole increases, and when MACC decreases the fair value of a portfolio investment below its cost, the unrealized depreciation item 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 a depreciated portfolio investment for a loss, unrealized depreciation for the portfolio as a whole decreases as the loss is realized.

MACC experienced a decrease of \$1,512,018 in net assets at the end of the second quarter of fiscal year 2002, and the resulting net asset value per share was \$7.96 as of March 31, 2002, as compared to \$8.60 as of September 30, 2001. Through the second quarter of fiscal year 2002, MACC's operating results have been adversely affected by challenging economic conditions. These economic factors have adversely impacted the operating performance and financial condition of a number of companies in MACC's investment portfolio. For example, three of MACC's portfolio companies are in the aerospace and travel industries, both of which have been adversely affected following the events of September 11. In addition, management believes that recent economic conditions, coupled with market uncertainty regarding hostilities involving the United States, have resulted in a contraction in the availability of capital generally, and from senior lenders in particular. However, management is encouraged by the performance of the portfolio as a whole and the improvement in the US economy in the first quarter of calendar year 2002. Several companies in the portfolio could be sold or could repurchase MACC's position in 2002 and an improved economy may increase these liquidity opportunities. It is uncertain, however, when any of these dispositions may occur or the prices at which these transactions may occur.

### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

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MACC, through its wholly-owned subsidiary, MorAmerica Capital, from time to time may seek to procure additional capital through the SBIC capital program to provide a portion of its future investment capital requirements. At present, it appears that there is availability of capital for the next five years through the SBIC capital program.

As of March 31, 2002, MACC's cash totaled \$2,902,164. MACC has a commitment for an additional \$4,455,000 in SBA guaranteed debentures, which expires September 30, 2005 and has submitted an application for an additional \$6,500,000 in SBA guaranteed debentures. MACC believes that its existing cash, together with the \$4,455,000 SBA commitment which expires September 30, 2005, additional commitments anticipated through the SBIC capital program and other anticipated cash flows, will provide adequate funds for MACC's anticipated cash requirements during the current fiscal year, including portfolio investment activities, interest payments on outstanding debentures payable and administrative expenses. MACC's investment objective has been revised to invest \$8,500,000 in new and follow-on investments during the current fiscal year.

Liquidity for the next several years will be impacted by principal payments on MACC's debentures payable. Debentures payable are composed of \$26,985,000 in principal amount of SBA-guaranteed debentures issued by MACC's subsidiary, MorAmerica Capital, which mature as follows: \$2,150,000 in 2003, \$1,000,000 in 2007, \$2,500,000 in 2009, \$9,000,000 in 2010, \$6,335,000 in 2011, and \$6,000,000 in 2012. It is anticipated MorAmerica Capital will be able to roll over these debenture with new ten year debentures when they mature.

During the current year second quarter, MACC has not repurchased any shares of stock through the stock repurchase program which was implemented in the current year first quarter. MACC has not repurchased any shares of stock due to the lack of consistent trading activity. The stock repurchase program will run through April 15, 2002 and will not be extended.

MACC anticipates that it will rely primarily on the SBIC capital program and its cash flows from operations to fund its investment activities and other cash requirements during fiscal year 2002. Although management believes these sources will provide sufficient funds for MACC to meet its revised fiscal 2002 investment level objective and other anticipated cash requirements, there can be no assurances that the SBIC capital program will continue to be available to MACC or that MACC's cash flows from operations will be as projected. MACC's cash flow could also be reduced by the contingent liabilities discussed in Note 3 to the Unaudited Condensed Consolidated Financial Statements. MACC intends to draw \$1,000,000 of its existing \$4,445,000 SBA commitment to fund its investment activities during the second half of fiscal year 2002.

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### PORTFOLIO ACTIVITY

During the six months ended March 31, 2002, MACC invested \$5,835,752 in eight portfolio companies, consisting of \$4,714,251 invested in five new portfolio companies and \$1,121,501 invested in follow-on investments in three existing portfolio companies. MACC frequently co-invests with other funds managed by MACC's investment advisor and with funds affiliated with MACC's largest shareholder, Zions First National Bank. 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 \$5,946,264 invested during the six months ended March 31, 2002, \$4,451,750 represented co-investments with funds managed by MACC's investment advisor and \$400,000

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represented co-investments with funds affiliated with Zions First National Bank. MACC's revised investment level objectives for fiscal year 2002 call for total new and follow-on investments of \$8,500,000. The timing of new and follow-on portfolio investments is somewhat uncertain and given current economic conditions, MACC may not meet its investment level objectives for the current fiscal year. However, management views investment level 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.

### 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. 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.

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.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

MACC is exposed to market risk from changes in market prices of publicly traded equity securities held in the MACC consolidated investment portfolio. At March 31, 2002, publicly traded equity securities in the MACC consolidated investment portfolio were recorded at a fair value of \$2,450,406. In accordance with MACC's valuation policies and SBA regulations, the fair value of publicly traded equity securities is determined based upon the average of the closing prices (or bid price in the case of over-the-counter equity securities) for the valuation date and the preceding two days. The publicly traded equity securities in the MACC consolidated investment portfolio thus have exposure to price risk, which is estimated as the potential loss in fair value due to a hypothetical 10% adverse change in quoted market prices, and would amount to a decrease in the recorded value of such publicly traded equity securities of approximately \$245,041. Actual results may differ.

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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 March 31, 2002, was \$27,650,000, with a cost of \$26,985,000. 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.

	March 31, 2002
Fair Value of Debentures Payable	\$27,650,000
Amount Above Cost	\$665,000
Additional Market Risk	\$ 777,000

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### PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no items to report.

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

On February 26, 2002, MACC's 2002 Annual Meeting of Shareholders (the "Meeting") was held in Cedar Rapids, Iowa. A quorum of 1,744,798 shares, or approximately 74.91% of issued and outstanding shares as of December 31, 2001, were represented in person or by proxy at the Meeting. The shareholders considered two proposals at the Meeting.

With respect to the first proposal, the shareholders elected three directors to serve until 2005 Annual Meeting of Shareholders or until their respective successors shall be elected and qualified. These directors and the votes cast in favor of and withheld with respect to each are as follows:

Director	For	Withheld
-----	---	-----

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Paul M. Bass, Jr.	1,726,981	17,817
David R Schroder	1,729,850	14,948
Robert A. Comey	1,729,708	15,090

The term of office of each of the following directors of MACC continued beyond the date of the Meeting: Michael W. Dunn; Jeri J. Harman; Henry T. Madden; Gordon J Roth; Todd J. Stevens; and John D. Wolfe.

With regard to the second proposal, the shareholders voted to ratify the appointment of KPMG LLP as independent auditors for MACC for Fiscal year 2002 by a vote of 1,714,209 in favor of ratification and 4,313 against ratification, with 26,276 shares abstaining.

ITEM 5. OTHER INFORMATION

There are no items to report.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

No exhibits are applicable.

(b) Reports on Form 8-K

MACC filed no current reports on Form 8-K during the quarter ended March 31, 2002.

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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: 5/13/02  
-----

By: /s/ David Schroder  
-----  
David Schroder, President

Date: 5/13/02

By: /s/ Robert A. Comey

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Robert A. Comey, Treasurer