MACC PRIVATE EQUITIES INC
Form 10-Q
May 14, 2003

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 March 31, 2003

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.

At April 30, 2003, the registrant had issued and outstanding 2,329,255 shares of common stock.

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PART I. FINANCIAL INFORMATION





PART 1 -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | March 31, | September 30, |
|---|---|---|

| | 2003 | 2002 |
|---|---|---|
| Assets | | |
| Loans and investments in portfolio securities, at market or fair value: | | |
| Unaffiliated companies (cost of $13,619,568 and $15,406,644) | $ 14,686,117 | 16,033,745 |
| Affiliated companies (cost of $21,532,360 and $23,341,683) | 18,971,241 | 19,212,232 |
| Controlled companies (cost of $4,490,501and $5,053,002) | 5,263,241 | 5,380,501 |
| Cash and money market accounts | 2,380,928 | 1,802,603 |
| Other assets, net | 1,502,154 | 1,584,620 |
| Total assets | $ 42,803,681 | 44,013,701 |
| Liabilities and net assets | | |
| Liabilities: | | |
| Debentures payable, net of discount | $ 27,937,275 | 27,934,004 |
| Incentive fees payable | 55,056 | 55,737 |
| Accrued interest | 198,773 | 187,070 |
| Accounts payable and other liabilities | 203,458 | 180,386 |
| Total liabilities | 28,394,562 | 28,357,197 |
| Net assets: | | |
| Common stock, $.01 par value per share; authorized 4,000,000 shares; issued and outstanding 2,329,255 shares | 23,293 | 23,293 |
| Additional paid-in-capital | 15,107,656 | 18,808,062 |
| Unrealized depreciation on investments | (721,830) | (3,174,851) |
| Total net assets | 14,409,119 | 15,656,504 |
| Total liabilities and net assets | $ 42,803,681 | 44,013,701 |
| Net assets per share | $ 6.19 | 6.72 |

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, 2003 | For the three months ended March 31, 2002 | For the months e March 2003 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Investment income: | | | |
| Interest | | | |
| Unaffiliated companies | $ 138,032 | 128,353 | 244 |
| Affiliated companies | 246,422 | 217,116 | 513 |
| Controlled companies | 60,238 | 77,112 | 134 |
| Other | 7,671 | 77,529 | 15 |
| Dividends | | | |
| Unaffiliated companies | 93,656 | 63,477 | 164 |
| Affiliated companies | 2,397 | 58,572 | 57 |
| Controlled companies | 7,871 | 7,004 | 15 |
| Processing fees | 9,435 | 30,331 | 17 |
| Other | 75,971 | 33,889 | 86 |
| Total investment income | 641,693 | 693,383 | 1,250 |
| Operating expenses: | | | |
| Interest | 550,421 | 464,404 | 1,100 |
| Management fees | 209,362 | 278,772 | 484 |
| Professional fees | 230,810 | 36,009 | 330 |
| Other | 142,726 | 129,832 | 227 |
| Total operating expenses | 1,133,319 | 909,017 | 2,143 |
| Investment expense, net before tax expense | (491,626) | (215,634) | (893 |
| Income tax expense | (15,000) | -- | (15 |
| Investment expense, net | (506,626) | (215,634) | (908 |
| Realized and unrealized (loss) gain on investments: | | | |
| Net realized (loss) gain on investments | | | |
| Unaffiliated companies | (218,959) | 313,450 | (748 |
| Affiliated companies | -- | (717,085) | (2,043 |
| Net change in unrealized appreciation/ depreciation on investments | (575,371) | (263,859) | 2,453 |
| Net loss on investments | (794,330) | (667,494) | (339 |
| Net change in net assets from operations | $ (1,300,956) | (883,128) | (1,247 |

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, 2003 |
|---|---|
| Cash flows from operating activities: | |

| | |
|---|---|
| Decrease in net assets from operations | $ (1,247,385) |
| Adjustments to reconcile decrease in net assets from operations to net cash used in operating activities: | |
| Net realized and unrealized loss on investments | 339,261 |
| Change in accrued interest, incentive fees payable, accounts payable and other liabilities | 34,775 |
| Other | 21,001 |
| Total adjustments | 395,037 |
| Net cash used in operating activities | (852,348) |
| Cash flows from investing activities: | |
| Proceeds from disposition of and payments on loans and investments in portfolio securities | 1,619,700 |
| Purchases of loans and investments in portfolio securities | (124,027) |
| Proceeds from disposition of short-term investments | -- |
| Purchases of short-term investments | -- |
| Net cash provided by (used in) investing activities | 1,495,673 |
| Cash flows from financing activities: | |
| Proceeds from debt issuance, net of commitment fees | -- |
| Payment of commitment fees | (65,000) |
| Net cash (used in) provided by financing activities | (65,000) |
| Net increase in cash and cash equivalents | 578,325 |
| Cash and cash equivalents at beginning of period | 1,802,603 |
| Cash and cash equivalents at end of period | $ 2,380,928 |
| Supplemental disclosure of cash flow information - Cash paid during the period for interest | $ 1,034,157 |
| Supplemental disclosure of noncash investing and financing information - | |
| Debt issuance costs financed with debentures payable | $ -- |
| Assets received in exchange of securities | 194,523 |

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, 2002. 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, 2002 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.



(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. 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 result of the indemnification claim, against which no accrual for loss has been made as of March 31, 2003, because the amount of the possible loss, and therefore its materiality to the financial statements, cannot be estimated. MorAmerica Capital intends to vigorously defend this arbitration. MorAmerica Capital owns debt securities of Buyer with a face value of $508,761, acquired as part of the sale of the Portfolio Company. Buyer has defaulted on interest payments due on these debt securities. In light of the interest default and related dispute, at March 31, 2003, MorAmerica Capital reduced the valuation of these debt securities to $254,380.

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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, 2002, 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, 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 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. 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.

Second Quarter Ended March 31, 2003 Compared to Second Quarter Ended March 31, 2002

For the three months ended March 31,

| | 2003 | 2002 | Change |
|---|---|---|---|
| Investment income | $ 641,693 | 693,383 | (51,690) |
| Operating expenses | (1,133,319) | (909,017) | (224,302) |
| Income taxes | (15,000) | -- | (15,000) |
| Investment expense, net | (506,626) | (215,634) | (290,992) |
| Net realized loss on investments | (218,959) | (403,635) | 184,676 |
| Net change in unrealized appreciation/ depreciation on investments | (575,371) | (263,859) | (311,512) |
| Net loss on investments | (794,330) | (667,494) | (126,836) |
| Net change in net assets from operations | $ (1,300,956) | (883,128) | (417,828) |
| Net asset value: | | | |
| Beginning of period | $ 6.74 | 8.33 | |
| End of period | $ 6.19 | 7.96 | |

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Investment Income

During the current year second quarter, total investment income was $641,693, a decrease of $51,690, or 7%, from total investment income of $693,383 from the prior year second quarter. In the current year second quarter as compared to the prior year second quarter, interest income decreased $47,747, or 10%, dividend income decreased $25,129, or 19%, processing fees decreased $20,896, or 69%, and other income increased $42,082, or 124%. The decrease in interest income is due to five investments which were on non-accrual of interest status in the current year second quarter which were accruing interest in the prior year second quarter and also the lower interest rate earned on cash on hand held in interest earning investments. In the current year second quarter and in the prior year second quarter MACC received dividends on four existing portfolio companies, two of which are distributions from limited liability companies, however, the distributions from limited liability companies in the prior year second quarter were larger. 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, compared to one new portfolio company investment in which MACC received a processing fee at closing and a processing fee received on the restructuring of an existing portfolio company in the prior year second quarter. The increase in other income is due to the receipt of advisory fees from two portfolio companies in the current year second quarter, as compared to only one portfolio company paying advisory fees and the increase in valuation of a receivable in the prior year second quarter.

Operating Expenses

Total operating expenses for the second quarter of the current year were $1,133,319, an increase of $224,302, or 25%, as compared to total operating expenses for the prior year second quarter of $909,017. Interest expense increased $86,017, or 19%, in the current year second quarter due to $3,000,000 of additional borrowings of SBA-guaranteed debentures during the latter part of the prior year second quarter and $955,000 of additional borrowings of

SBA-guaranteed debentures since the end of the prior year second quarter. Management fees decreased $69,410, or 25%, in the current year second quarter due to MACC's investment advisor agreeing to a voluntary, temporary reduction in management fees to reduce the expenses of MACC. Professional fees increased $194,801, or 541%, in the current year second quarter due to increased legal fees in connection with arbitration proceedings related to the sale of a former portfolio company and increased legal and accounting fees to comply with new securities and exchange corporate governance requirements. 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 $12,894, or 10%, in the current year second quarter as compared to the prior year second quarter mainly due to the change in the other assets loss provision.

Investment Expense, Net

As a result of the factors discussed above, for the current year second quarter, MACC recorded a net investment expense of $491,626, as compared to net investment expense of $215,634 during the prior year second quarter.

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Realized (Loss) Gain on Disposition of Investments

During the current year second quarter, MACC recorded net realized loss on investments of $218,959, as compared with net realized loss on investments of $403,635 during the prior year second quarter. In the current year second quarter, MACC realized a loss of $236,785 from the sale of one portfolio company of which $270,004 was previously recorded as unrealized depreciation. MACC also recovered $17,826 from one portfolio company investment which was written off in a prior period. 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.

Changes in Unrealized Appreciation/Depreciation of Investments

MACC recorded net change in unrealized appreciation/depreciation on investments of $575,371 during the current year second quarter, as compared to $263,859 during the prior year second quarter. This net change in unrealized appreciation/depreciation on investments of $575,371 is the net effect of increases in fair value of five portfolio companies totaling $870,703, decreases in fair value of eight portfolio companies totaling $1,716,078, and the reversal of $270,004 of depreciation resulting from the sale of one portfolio company referenced above.

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 $1,300,956 in net assets at the end of the second quarter of fiscal year 2003, and the resulting net asset value per share was $6.19 as of March 31, 2003, as compared to $6.72 as of September 30, 2002. Although general economic conditions continue to have an adverse impact on the operating results and financial condition of a number of MACC's portfolio companies, the majority of MACC's forty-two portfolio companies continue to be valued at cost or above. MACC has seventeen portfolio investments valued at cost and has recorded unrealized appreciation on thirteen portfolio investments and has recorded unrealized depreciation on twelve portfolio investments.

To mitigate the effects of the current economic environment on MACC's operating performance during fiscal 2003, MACC's investment advisor voluntarily agreed to reduce the amount of management fees payable by MACC from January 1, 2003 through February 29, 2004. In addition, MACC has reduced its projected investment rate and

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projected borrowing rate in the revised fiscal 2003 budget. Recent years have been difficult years for the venture capital industry, with few comparisons to past business cycles. The declines in the stock market, increased regulations, world tensions, terrorism and the war in Iraq, all contribute to increased risk and uncertainty to future performance of MACC's investment portfolio. If the economy improves over the next six months, management believes MACC's investment portfolio will benefit from improved operating performance at a number of portfolio companies and a more robust market for corporate acquisitions.

Six Months Ended March 31, 2003, Compared to Six Months Ended March 31, 2002

| | For the six months ended March 31, 2003 | 2002 | Change |
|---|---|---|---|
| Investment income | $ 1,250,251 | 1,399,743 | (149,492) |
| Operating expense | (2,143,375) | (1,748,504) | (394,871) |
| Income taxes | (15,000) | -- | (15,000) |
| Investment expense, net | (908,124) | (348,761) | (559,363) |
| Net realized (loss) gain on investments | (2,792,282) | (2,619,085) | (173,197) |
| Net increase (decrease) in unrealized appreciation/ depreciation on investments | 2,453,021 | 1,455,828 | 997,193 |
| Net loss on investments | (339,261) | (1,163,257) | 823,996 |
| Net change in net assets from operations | $ (1,247,385) | (1,512,018) | 264,633 |
| Net asset value: | | | |
| Beginning of period | $ 6.72 | 8.60 | |
| End of period | $ 6.19 | 7.96 | |

Investment Income

During the current year six-month period, total income of $1,250,251 was a decrease of $149,492, or 11%, from total income of $1,399,743 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 11% to $909,142 from $1,023,947, dividend income decreased 10% to $237,898 from $264,884, processing fee income decreased 71% to $17,185 from $59,591 and other income increased 68% to $86,026 from $51,321. 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, MACC received dividends on seven existing portfolio companies, four of which are distributions from limited liability companies, as compared to dividend income received on five portfolio companies in the prior year six-month period, three of which were distributions from limited liability companies, however the dividends received in the prior year six-month period were larger. Processing fees decreased due to only one follow-on investment and one existing portfolio company investment in which MACC received processing fees at the closing, compared to one new portfolio company investment made in the prior year period, a restructuring of an existing portfolio company investment and a follow-on investment in which MACC received processing fees at closing. Other income increased due to the receipt of advisory fees from two portfolio companies in the current year six-month period, as compared to only one portfolio company paying advisory fees and the increase in valuation of a receivable in the prior year six-month period.



Operating Expenses

Total operating expenses for the current year six-month period were $2,143,375 an increase of $394,871, or 23%, as compared to total operating expenses for the prior year six-month period of $1,748,504. Interest expense increased 20% to $1,100,841 in the current year six-month period as compared to $913,628 in the prior year six-month period due to $3,000,000 of additional borrowings of SBA-guaranteed debentures during the latter part of the prior year six-month period and $955,000 of additional borrowings of SBA-guaranteed debentures since the end of the prior year six-month period. Management fees decreased 12% to $484,430 in the current year six-month period as compared to $547,723 in the prior year six-month period due to MACC's investment advisor agreeing to a voluntary, temporary reduction in management fees from January 1, 2003 through February 29, 2004 to reduce the expenses of MACC. Professional fees increased 321% to $330,267 in the current year six-month period from $78,418 in the prior year six-month period. 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 9% to $227,837 from $208,735 in the current year six-month period as compared to the prior year six-month period mainly due to the change in the other assets loss provision.

Investment Expense, Net

For the current year six-month period, MACC recorded a net investment expense of $893,124, as compared to $348,761 during the prior year six-month period.

Realized (Loss) Gain on Disposition of Investments

During the current year six-month period, MACC recorded net realized loss on investments of $2,792,282, as compared with net realized loss on investments of $2,619,085 during the prior year six-month period. In the current year six-month period, MACC realized losses of $236,785 from the sale of one portfolio company and $2,573,323 from the write-off of two portfolio companies, of which $2,842,774 was previously recorded as unrealized depreciation. MACC also recovered $17,826 from one portfolio company investment which was written off in a prior period. Management does not attempt to maintain a comparable level of realized gains from year to year but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities and investing in new portfolio investments.

Changes in Unrealized Appreciation/Depreciation of Investments

MACC recorded net change in unrealized appreciation/depreciation on investments of $2,453,021 during the current year six-month period, as compared to $1,455,828 during the prior year period. This net change in unrealized appreciation/depreciation on investments of $2,453,021 is the net effect of increases in fair value of nine portfolio companies totaling $1,625,697, decreases in fair value of eleven portfolio companies totaling $2,080,448, the reversal of $335,002 of depreciation from the sale of one portfolio company investment, and the reversal of $2,572,770 of depreciation resulting from the write-off of the investment in two portfolio companies referenced above.



## 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 provide a portion of its investment capital requirements. At present, capital with a commitment period of up to five years is available through the SBIC leverage program and MACC anticipates that capital will be available in future periods.

As of March 31, 2003, MACC's cash and money market accounts totaled $2,380,928. 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. MACC believes that its existing cash and money market accounts, the $10,000,000 SBA commitments, and other anticipated cash flows, will provide adequate funds for MACC's anticipated cash requirements during the current fiscal year, including portfolio investment activities, principal and interest payments on outstanding debentures payable and administrative expenses. MACC's investment objective has been revised to invest $5,000,000 in new and follow-on investments during the current fiscal year subject to further adjustment based upon current economic and operating conditions.

Liquidity for the current year will be impacted by principal payments on MACC's debentures payable. Debentures payable are composed of $27,940,000 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, $5,835,000 in 2011, and $7,455,000 in 2012. It is anticipated MorAmerica Capital will be able to roll over these debentures with new ten-year debentures when they mature.

MACC anticipates that it will rely primarily on its current cash and money market accounts, the SBIC capital program and its cash flows from operations to fund its investment activities and other cash requirements during fiscal year 2003. Although management believes these sources will provide sufficient funds for MACC to meet its fiscal 2003 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 loss contingency discussed in Note 3 to the Unaudited Condensed Consolidated Financial Statements.

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 $38,920,599 and $40,626,478 at March 31, 2003 and September 30, 2002, respectively. During the three months ended March 31, 2003, MACC invested

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$124,027 in follow-on investments in two existing portfolio companies. 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 investment objective for fiscal year 2003 has been revised for total new and follow-on investments of $5,000,000.

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. MACC did not co-invest with any other fund during the six months ended March 31, 2003.

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.

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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, 2003, publicly traded equity securities in the MACC consolidated investment portfolio were recorded at a fair value of $2,846,198. 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 $284,620. Actual results may differ.

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, 2003, was $31,178,000, 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.

| | 2003 |
|---|---|
| Fair Value of Debentures Payable | $31,178,000 |
| Amount Above Cost | $ 3,238,000 |
| Additional Market Risk | $ 860,000 |

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Item 307 of Regulation S-K promulgated under the Securities Act of 1933, as amended, and within 90 days of the date of this Quarterly Report on Form 10-Q, 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-14(c) and 15d-14(c) 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.



## 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. 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 result of the indemnification claim, against which no accrual for loss has been made as of March 31, 2003, because the amount of the possible loss, and therefore its materiality to the financial statements, cannot be estimated. MorAmerica Capital intends to vigorously defend this arbitration. MorAmerica Capital owns debt securities of Buyer with a face value of $508,761, acquired as part of the sale of the Portfolio Company. Buyer has defaulted on interest payments due on these debt securities. In light of the interest default and related dispute, at March 31, 2003, MorAmerica Capital reduced the valuation of these debt securities to $254,380.

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 25, 2003, MACC's 2003 Annual Meeting of Shareholders (the "Meeting") was held in Cedar Rapids, Iowa. A quorum of 1,728,171 shares, or approximately 74.19% of issued and outstanding shares as of December 31, 2002, 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 2004 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 |
|---|---|---|
| Henry T. Madden | 1,708,877 | 19,294 |
| Todd J. Stevens | 1,713,099 | 15,072 |
| John D. Wolfe | 1,710,061 | 18,110 |

The term of office of each of the following directors of MACC continued beyond the date of the Meeting: Paul M. Bass, Jr.; Robert A. Comey; Michael W. Dunn; Gordon J. Roth; and David R. Schroder.

With regard to the second proposal, the shareholders voted to ratify the appointment of KPMG LLP as independent auditors for MACC for Fiscal year 2003 by a vote of 1,702,800 in favor of ratification and 7,547 against ratification, with 17,824 shares abstaining.

ITEM 5. OTHER INFORMATION

There are no items to report.

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

(a) Exhibits

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

10.1.d. Fourth Amendment to Investment Advisory Agreement between the Corporation and InvestAmerica Investment Advisors, Inc., dated February 25, 2003.

10.2.c. Third Amendment to Investment Advisory Agreement between MorAmerica Capital Corporation and InvestAmerica

Investment Advisors, Inc., dated February 25, 2003.

99.1 Section 906 Certification of David R. Schroder (CEO)

99.2 Section 906 Certification of Robert A. Comey (CFO)

(b) Reports on Form 8-K

MACC filed no current reports on Form 8-K during the quarter ended March 31, 2003.

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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: 5/12/03 By: /s/ David Schroder

David Schroder, President

Date: 5/12/03 By: /s/ Robert A. Comey

Robert A. Comey, Treasurer

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CERTIFICATION

I, David R. Schroder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MACC Private Equities Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent

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evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ David R. Schroder
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David R. Schroder
President and Secretary
(principal executive officer)

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CERTIFICATION

I, Robert A. Comey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MACC Private Equities Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to sate a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of the date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent

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evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Robert A. Comey
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Robert A. Comey
Executive Vice President and
Treasurer
(principal financial officer)

EXHIBIT INDEX