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MACC PRIVATE EQUITIES INC
Form 10-Q
August 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 June 30, 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 July 31, 2002, 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,

Septemb

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	2002	2001
	-----	-----
Assets		
Loans and investments in portfolio securities, at market or fair value:		
Unaffiliated companies (cost of \$16,902,728 and \$17,375,283)	\$ 17,492,885	16,662,377
Affiliated companies (cost of \$20,169,273 and \$22,002,764)	18,979,377	17,682,377
Controlled companies (cost of \$5,053,001 and \$3,005,000)	5,380,501	3,622,377
Cash and money market accounts	2,662,328	792,377
Certificates of deposit	437,176	682,377
Other assets, net	1,695,194	1,942,377
	-----	-----
Total assets	\$ 46,647,461	41,392,377
	=====	=====
Liabilities and net assets		
Liabilities:		
Debentures payable, net of discount	\$ 26,977,369	20,972,377
Incentive fees payable	57,585	102,377
Accrued interest	627,203	112,377
Accounts payable and other liabilities	60,662	162,377
	-----	-----
Total liabilities	27,722,819	21,352,377
	-----	-----
Net assets:		
Common stock, \$.01 par value per share; authorized 4,000,000 shares; issued and outstanding 2,329,255 shares	23,293	2,329,255
Additional paid-in-capital	19,173,588	24,322,377
Unrealized depreciation on investments	(272,239)	(4,322,377)
	-----	-----
Total net assets	18,924,642	20,042,377
	-----	-----
Total liabilities and net assets	\$ 46,647,461	41,392,377
	=====	=====
Net assets per share	\$ 8.12	-----
	=====	-----

See accompanying notes to unaudited condensed consolidated financial statements.

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	For the three months ended June 30, 2002 -----	For the three months ended June 30, 2001 -----	For the three months ended June 30, 2000 -----
Investment income:			
Interest			
Unaffiliated companies	\$ 208,187	247,159	55,000
Affiliated companies	233,071	213,291	66,000
Controlled companies	77,502	80,786	22,000
Other	22,326	60,511	11,000
Dividends			
Unaffiliated companies	67,032	38,525	18,000
Affiliated companies	145,364	36,191	28,000
Controlled companies	7,700	125,532	1,000
Processing fees	19,213	37,639	7,000
Other	44,019	40,591	9,000
	-----	-----	-----
Total income	824,414	880,225	2,220,000
	-----	-----	-----
Operating expenses:			
Interest	543,913	433,965	1,450,000
Management fees	285,914	266,143	83,000
Professional fees	96,884	36,188	17,000
Other	48,203	97,784	25,000
	-----	-----	-----
Total operating expenses	974,914	834,080	2,725,000
	-----	-----	-----
Investment (expense) income, net before tax expense	(150,500)	46,145	(49,000)
Income tax expense	(60,000)	--	(6,000)
	-----	-----	-----
Investment (expense) income, net	(210,500)	46,145	(55,000)
	-----	-----	-----
Realized and unrealized gain (loss) on investments:			
Net realized (loss) gain on investments			
Unaffiliated companies	(1,975,242)	6,430	(1,630,000)
Affiliated companies	--	--	(2,950,000)
Net change in unrealized appreciation/ depreciation on investments	2,579,431	(47,991)	4,030,000
	-----	-----	-----
Net gain (loss) on investments before income tax expense	604,189	(41,561)	(55,000)
Income tax expense	--	--	--
	-----	-----	-----
Net gain (loss) on investments	604,189	(41,561)	(55,000)
	-----	-----	-----
Net change in net assets from operations	\$ 393,689	4,584	(1,110,000)
	=====	=====	=====

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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, 2002 -----
Cash flows from operating activities:	
Decrease in net assets from operations	\$(1,118,329) -----
Adjustments to reconcile decrease in net assets from operations to net cash used in operating activities:	
Net realized and unrealized loss on investments	559,068
Net realized gain on other assets	(48,837)
Change in accrued interest, incentive fees payable, accounts payable and other liabilities	364,926
Other	(10,860) -----
Total adjustments	864,297 -----
Net cash used in operating activities	(254,032) -----
Cash flows from investing activities:	
Proceeds from disposition of and payments on loans and investments in portfolio securities	2,903,000
Purchases of loans and investments in portfolio securities	(6,606,183)
Proceeds from disposition of short-term investments	92,500
Purchases of short-term investments	(118,551) -----
Net cash used in investing activities	(3,729,234) -----
Cash flows from financing activities:	
Proceeds from debt issuance, net of commitment fees	5,850,000
Payments of principal on debt	--
Payments for fractional shares in connection with stock split	--
Payments for commitment fees	-- -----

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Net cash provided by (used in) financing activities	5,850,000 -----
Net increase in cash and cash equivalents	1,866,734
Cash and cash equivalents at beginning of period	795,594 -----
Cash and cash equivalents at end of period	\$ 2,662,328 =====
Supplemental disclosure of cash flow information -	
Cash paid during the period for interest	\$ 850,434 =====
Supplemental disclosure of noncash investing and financing information -	
Debt issuance costs financed with debentures payable	\$ 150,000
Assets received in exchange of securities	149,408 =====

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 which is not material from the bid price on the final day of the period. Restricted and other

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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; and 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 is a party to arbitration proceedings instituted by TransCore Holdings, Inc., 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 (collectively, 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. 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 Buyer's claim and discussions with external legal counsel, Equities 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, 2002, but 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 such as "may," "will," "should," "expects," "anticipates," "estimates," "plans," or similar language.

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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

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.

Third Quarter Ended June 30, 2002, Compared to Third Quarter Ended June 30, 2001

	For the three months ended June 30,		
	2002	2001	Change
Investment income	\$ 824,414	880,225	(55,811)
Operating expenses	(974,914)	(834,080)	140,834
Income taxes	(60,000)	--	60,000
	-----	-----	-----
Investment (expense) income, net	(210,500)	46,145	(256,645)
	-----	-----	-----
Net realized (loss) gain on investments after income tax expense	(1,975,242)	6,430	(1,981,672)
Net increase (decrease) in unrealized appreciation/ depreciation on investments	2,579,431	(47,991)	2,627,422
	-----	-----	-----
Net gain (loss) on investments after income tax expense	604,189	(41,561)	645,750
	-----	-----	-----
Net increase in net asset value	\$ 393,689	4,584	389,105
	-----	-----	-----
Net asset value:			
Beginning of period	\$ 7.96	9.92	
	-----	-----	
End of period	\$ 8.12	9.92	
	-----	-----	

Investment Income

During the current year third quarter total investment income of \$824,414 was approximately 6% lower than total investment income of \$880,225 for the prior year third quarter. In the current year third quarter as compared to the prior year third quarter, interest income decreased \$60,661, dividend income increased \$19,848, processing fees decreased \$18,426 and other income increased \$3,428. The decrease in interest income is due to four investments which are on non-accrual of interest status in the current year third quarter as compared to three investments in the prior year third quarter. Also, MACC received less interest on cash equivalents during the current year third quarter because cash on hand was lower in the current year third quarter than in the prior year third quarter, as cash was received on the sale of an investment in the prior year third quarter and also the lower interest rate earned on cash on hand held in interest earning investments was lower. 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 third quarter MACC received dividends on seven portfolio companies as compared to dividends received on four portfolio companies in the prior year third quarter. Processing fees decreased due to the smaller dollar amount invested in two new portfolio company investments in the current year third quarter in which MACC received processing fees at the closing compared to the larger dollar amount invested in two new portfolio investments in the prior year third quarter in which MACC received processing fees at closing. The increase in other income is due to the receipt of advisory fees from one portfolio company and the collection of an escrow received as part of a liquidation of a previously held portfolio company investment, as compared to one portfolio company investment liquidated in the prior year third quarter in which shares of stock were received and recorded at fair market value.

Operating Expenses

Total operating expenses for the third quarter of the current year total were \$974,914, an increase of approximately 17%, as compared to total operating expenses for the prior year third quarter of \$834,080. Interest expense increased to \$543,913 in the current year third quarter as compared to \$433,965 in the prior year third quarter due to \$6,500,000 of additional borrowings of SBA-guaranteed debentures since the end of the prior year third quarter. Management fees increased to \$285,914 in the current year third quarter as compared to \$266,143 in the prior year third quarter due to an increase in assets under management. Professional fees increased to \$96,884 in the current year third quarter from \$36,188 in the prior year third 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 decreased to \$48,203 from \$97,784 in the current year third quarter as compared to the prior year third quarter due to the timing of administrative expenses.

Net Investment Expense

For the current year third quarter, MACC recorded a net investment expense of \$210,500, as compared to net investment income of \$46,145 during the prior year third quarter.

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Realized Gain (Loss) on Disposition of Investments

During the current year third quarter, MACC recorded net realized loss on investments of \$1,975,242, as compared with net realized gain on investments of \$6,430 during the prior year third quarter. In the current year third quarter, MACC realized a gain of \$59,834 in one portfolio company investment and realized a loss of \$2,035,076 from the write-off of one portfolio company of which \$2,035,075 was previously recorded as unrealized depreciation. Management does not attempt to maintain a comparable level of realized gains quarter to quarter but instead attempts to maximize total investment portfolio appreciation through realizing gains in the disposition of securities and investing in new portfolio investments.

Changes in Unrealized Appreciation/Depreciation of Investments

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 or disposes of a depreciated portfolio investment for a loss, unrealized depreciation for the portfolio as a whole decreases as the loss is realized.

MACC recorded net change in unrealized appreciation/depreciation on investments of \$2,579,431 during the current year third quarter, as compared to (\$47,991) during the prior year period. This net change in unrealized appreciation/depreciation on investments of \$2,579,431 is the net effect of increases in fair value of seven portfolio companies totaling \$1,724,846, decreases in fair value of eight portfolio companies totaling \$1,167,157, the reversal of appreciation of \$13,333 in one portfolio investment in which a sale of warrant shares resulted in a realized gain, and the reversal of \$2,035,075 of depreciation resulting from the write-off of the investment in one portfolio company referenced above.

Net Change in Net Assets from Operations

MACC experienced an increase of \$393,689 in net assets during the third quarter of fiscal year 2002, and the resulting net asset value per share was \$8.12 as of June 30, 2002, as compared to \$8.60 as of September 30, 2001. Through the third quarter of fiscal year 2002, MACC's operating results have been affected by challenging economic conditions which have adversely impacted the operating performance and financial condition of some companies in MACC's investment portfolio. Management is encouraged by the performance of the portfolio as a whole and the improvement in the US economy in the second quarter of calendar year 2002. Many of the companies in the portfolio have increased sales and show improved overall performance. Several companies in the portfolio could be sold or could repurchase MACC's position and an improved economy may increase these liquidity opportunities. It is uncertain, however, when any of these dispositions may occur or the prices of these transactions.

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Nine Months Ended June 30, 2002, Compared to Nine Months Ended June 30, 2001

	For the nine months ended June 30,		Change
	2002	2001	
Investment income	\$ 2,224,157	2,482,963	(258,806)
Operating expenses	(2,723,418)	(2,486,164)	237,254
Income taxes	(60,000)	(70,000)	(10,000)
Net investment expense	(559,261)	(73,201)	486,060
Net realized (loss) gain on investments after income tax expense	(4,594,327)	2,410,397	(7,004,724)
Net increase (decrease) in unrealized appreciation/ depreciation on investments	4,035,259	(5,539,582)	9,574,841
Net loss on investments after income tax expense	(559,068)	(3,129,185)	2,570,117
Net decrease in net asset value	\$(1,118,329)	(3,202,386)	2,084,057
Net asset value:			
Beginning of period	\$ 8.60	11.01	
End of period	\$ 8.12	9.92	

Investment Income

During the current year nine-month period, total income of \$2,224,157 was a decrease of \$258,806, or 10%, from total income of \$2,482,963 in the prior year nine-month period. For the current year nine-month period as compared to the prior year nine-month period, interest income decreased to \$1,565,033 from \$1,788,726, dividend income decreased to \$484,980 from \$576,092, processing fee income increased to \$78,804 from \$76,554 and other income increased to \$95,340 from \$41,591. The decrease in interest income is due to the reasons stated above for the current year third quarter. In the current year nine-month period and the prior year nine-month period, dividend income was received on eight portfolio companies, however the dividend payments were greater in the prior year nine-month period. Processing fees increased due to three new portfolio company investments 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 three new portfolio company investments and three smaller follow-on portfolio investments made in the prior year nine-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, the collection of an escrow received as part of a liquidation of a previously held portfolio company investment and the reimbursement of legal fees expensed in the prior fiscal year, as compared to one portfolio company investment

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liquidated in the prior year nine-month period in which shares of stock were received and recorded at fair market value.

Operating Expenses

Total operating expenses for the current year nine-month period were \$2,723,418 an increase of approximately 10%, as compared to total operating expenses for the prior year nine-month period of \$2,486,164. Interest expense increased to \$1,457,541 in the current year

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nine-month period as compared to \$1,328,635 in the prior year nine-month period due to \$6,500,000 of additional borrowings of SBA-guaranteed debentures since the end of the prior year third quarter. Management fees increased to \$833,637 in the current year nine-month period as compared to \$798,429 in the prior year nine-month period due to an increase in assets under management. Professional fees increased to \$175,302 in the current year nine-month period from \$91,206 in the prior year nine-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 decreased to \$256,938 from \$267,894 in the current year nine-month period as compared to the prior year nine-month period mainly due to the timing of administrative expenses.

Net Investment Expense

For the current year nine-month period, MACC recorded a net investment expense of \$559,261, as compared to \$73,201 during the prior year nine-month period.

Realized Gain (Loss) on Disposition of Investments

During the current year nine-month period, MACC recorded net realized loss on investments of \$4,594,327, as compared with net realized gain on investments of \$3,090,397 during the prior year nine-month period. In the current year nine-month period, MACC realized a gain of \$945,691 in five portfolio company investments and realized a loss of \$5,540,018 from the write-off of three portfolio companies, of which \$4,115,424 was previously recorded as unrealized depreciation. 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 \$4,035,259 during the current year nine-month period, as compared to (\$5,539,582) during the prior year period. This net change in unrealized appreciation/depreciation on investments of \$4,035,259 is the net effect of increases in fair value of ten portfolio companies totaling \$2,740,665, decreases in fair value of nine portfolio companies totaling \$2,180,114, 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 \$4,115,424 of depreciation resulting from the write-off of the investment in three portfolio investments.

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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 June 30, 2002, MACC's cash totaled \$2,662,328. 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.

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 loss contingency 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 fourth quarter of fiscal year 2002.

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 \$41,852,763 and \$37,972,833 at June 30, 2002 and September 20, 2001, respectively. During the nine months ended

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June 30, 2002, MACC made investments totaling \$6,606,183 consisting of \$5,220,251 of investments in six new portfolio companies and \$1,385,932 of follow-on investments in five 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

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consistent with orders of the Securities and Exchange Commission for related party co-investments to reduce or eliminate conflict of interest issues. Of the \$6,606,183 invested during the nine months ended June 30, 2002, \$5,837,682 represented co-investments with funds managed by MACC's investment advisor and \$560,000 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 which is not material 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; and 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

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determination is made.

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 June 30, 2002,

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publicly traded equity securities in the MACC consolidated investment portfolio were recorded at a fair value of \$2,763,657. 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 \$276,366. 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 June 30, 2002, was \$27,640,000, 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.

	2002
Fair Value of Debentures Payable	\$27,640,000
Amount Above Cost	\$ 655,000
Additional Market Risk	\$ 755,000

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PART II. OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS.

MorAmerica Capital is a party to arbitration proceedings instituted on May 30, 2002 by Transcore Holdings, Inc., a company (Buyer) seeking indemnification under a Stock Purchase Agreement (the Stock Purchase Agreement), pursuant to which MorAmerica Capital and certain other individuals and institutional investors (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 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, 2002, but 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.

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

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:

- 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 June 30, 2002.

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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: 8/13/02

By: /s/ David Schroder

David Schroder, President

Date: 8/13/02

By: /s/ Robert A. Comey

Robert A. Comey, Treasurer

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EXHIBIT INDEX

Exhibit	Description	Page
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99.1	Section 906 Certification of David R. Schroder (CEO)	19
99.2	Section 906 Certification of Robert A. Comey (CFO)	21

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