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MACC PRIVATE EQUITIES INC

Form 10-K

December 28, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001

OR

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

COMMISSION FILE NO. 0-24412

MACC PRIVATE EQUITIES INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

Delaware 42-1421406
(State or Other Jurisdiction (I.R.S. Employer
of Incorporation) Identification No.)

101 Second Street, S.E., Ste. 800 52401
Cedar Rapids, Iowa (Zip Code)

Registrant's Telephone Number
Including Area Code: (319) 363-8249

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class ----- | Name of Each Exchange On Which Registered ----- |
|------------------------------|---|
| None | None |

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, \$.01 par value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K []

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of November 30, 2001, was approximately \$7,909,637 based upon the average bid and asked price for shares of the registrant's common stock on that date. As of November 30, 2001, there were 2,329,255 shares of the registrant's common stock outstanding, of which approximately 1,307,378 shares were held by non-affiliates.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the year ended September 30, 2001, are incorporated by reference into Parts II and IV of this Report. Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 26, 2002, are incorporated by reference into Part III of this Report.

PART I

ITEM 1. BUSINESS.

GENERAL

MACC Private Equities Inc. (the "Corporation") was formed as a Delaware corporation on March 3, 1994. It is qualified as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act").

The Corporation has one direct wholly-owned subsidiary, MorAmerica Capital Corporation ("MorAmerica Capital"). As of September 30, 2001, MorAmerica Capital comprised approximately 99% of the Corporation's assets. MorAmerica Capital is an Iowa corporation incorporated in 1959 and which has been licensed as a small business investment company since that year. It has also elected treatment as a BDC under the 1940 Act.

THE CORPORATION'S OPERATION AS A BDC

As noted above, both the Corporation and its wholly-owned subsidiary, MorAmerica Capital, have elected treatment as BDCs under the 1940 Act. Under the 1940 Act, a BDC may not acquire any asset other than Qualifying Assets as defined under the 1940 Act, unless, at the time the acquisition is made, Qualifying Assets represent at least 70 percent of the value of the BDC's total assets. The principal categories of Qualifying Assets relevant to the business of the Corporation are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer is an eligible portfolio company. An eligible portfolio company is defined in the 1940 Act as any issuer that:
 - (a) is organized under the laws of, and has its principal place of business in, the United States;
 - (b) is not an investment company; and
 - (c) does not have any class of securities with respect to which a broker may extend margin credit.

The Corporation's investment in all of the issued and outstanding common stock of MorAmerica Capital is also a Qualifying Asset under the 1940 Act.

- (2) Cash, cash items, government securities, or high quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must have been organized (and have its principal place of business) in the United States for the purpose of making investments in the types of securities described in (1)

above and, in order to count the securities as Qualifying Assets for the purpose of the 70 percent test, the BDC must make available to the issuers of the securities significant managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

Under the 1940 Act, once a company has elected to be regulated as a BDC, it may not change the nature of its business so as to cease to be, or withdraw its election as, a BDC unless authorized by vote of a majority, as defined in the 1940 Act, of the company's shares. In order to maintain their status as BDCs, the Corporation and MorAmerica Capital each must have at least 50% of their total assets invested in the types of portfolio companies described by Sections 55(a)(1) through 55(a)(3) of the 1940 Act. Accordingly, the Corporation and MorAmerica Capital may not withdraw their BDC elections or otherwise change their business so as to cease to qualify as BDCs without shareholder approval.

INVESTMENTS AND DIVESTITURES

For the fiscal year ended September 30, 2001, the Corporation made total investments of \$6,918,993 in 4 new portfolio companies and in follow-on investments in 11 existing portfolio companies. The Corporation's investment-level objectives on a consolidated basis call for new and follow-on investments of approximately \$11,000,000 during fiscal year 2002.

During fiscal year 2001, the Corporation recorded \$3,168,350 in net realized gains.

ITEM 2. PROPERTIES.

The Corporation does not own or lease any properties or other tangible assets. Its business premises and equipment are furnished by InvestAmerica Investment Advisors, Inc. (the "Investment Advisor"), the investment advisor to the Corporation.

ITEM 3. LEGAL PROCEEDINGS.

There are no items to report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There are no items to report.

EXECUTIVE OFFICERS OF THE REGISTRANT.

The following table sets forth the names, ages and positions of the Corporation's Executive Officers as of December 15, 2001, as well as certain other information with respect to such persons:

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| Name ---- | Age --- | Positions Currently Held with the Corporation ----- | Principal Occupations During the Past Five Years ----- |
|-------------------|------------|---|---|
| David R. Schroder | 58 | Director, President and Secretary | Director, President and Secretary of the Investment Advisor; MorAmerica Capital; InvestAmerica Venture Group, Inc.; InvestAmerica N.D. Management, Inc.; and InvestAmerica N.D., L.L.C. |
| Robert A. Comey | 55 | Director, Executive Vice President and Treasurer | Director, Executive Vice President and Treasurer of MorAmerica Capital, the Investment Advisor, InvestAmerica Venture Group, Inc.; InvestAmerica N.D. Management, Inc. and InvestAmerica N.D., L.L.C. |
| Kevin F. Mullane | 46 | Senior Vice President | Senior Vice President of MorAmerica Capital; Senior Vice President and Director of the Investment Advisor; InvestAmerica Venture Group, Inc.; InvestAmerica N.D. Management, Inc.; and InvestAmerica N.D., L.L.C. |

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Information in response to this Item is incorporated by reference to the "Shareholder Information" section of the Corporation's Annual Report to Shareholders for the fiscal year ended September 30, 2001 (the "2001 Annual Report").

ITEM 6. SELECTED FINANCIAL DATA.

Information in response to this Item is incorporated by reference to the "Selected Financial Data" section of the 2001 Annual Report.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Information in response to this Item is incorporated by reference to the "Management's Discussion and Analysis" section of the 2001 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Information in response to this Item is incorporated by reference to the "Quantitative and Qualitative Disclosures About Market Risk" section of the 2001 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information in response to this Item is incorporated by reference to the Consolidated Financial Statements, notes thereto and report therein contained in the 2001 Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There are no items to report.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information in response to this Item is incorporated by reference to the identification of directors and nominees contained in the "Election of Directors" section and the subsection captioned "Section 16(a) Beneficial Ownership Reporting Compliance" of the Corporation's definitive proxy statement in connection with its 2002 Annual Meeting of Stockholders, scheduled to be held on February 26, 2002 (the "2002 Proxy Statement"). Information in response to this Item also is included under the caption "Executive Officers of the Registrant" in Part I of this Report.

ITEM 11. EXECUTIVE COMPENSATION.

Information in response to this Item is incorporated by reference to the subsection captioned "Compensation of Directors and Executive Officers" of the 2002 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information in response to this Item is incorporated by reference to the subsection captioned "Stock Ownership of Certain Beneficial Owners" of the 2002 Proxy Statement.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Corporation and MorAmerica Capital each have executed an Investment Advisory Agreement with the Investment Advisor. With respect to the Corporation, the Investment Advisory Agreement provides for a management fee payable to the Investment Advisor equal to 2.5% of Assets Under Management (as that term is defined in the Investment Advisory Agreement). With respect to MorAmerica Capital, the management fee is equal to 2.5% of Capital Under Management (as that term is defined in the Investment Advisory Agreement), not to exceed 2.5% of Assets Under Management or 7.5% of Regulatory Capital. In addition, the Investment Advisor is entitled to an incentive fee under both of the Investment Advisory Agreements equal to 13.4% of the net capital gains, before taxes, on portfolio investments and from the disposition of other assets or property

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managed by the Investment Advisor.

Management fees under the Investment Advisory Agreements on a consolidated basis amounted to \$1,064,571 for fiscal year 2001. Incentive fees under the Investment Advisory Agreements on a consolidated basis amounted to \$110 for fiscal year 2001.

The Investment Advisor is owned by its three principal officers and directors, all of whom are also officers and/or directors of the Corporation. These individuals and their positions held with the Investment Advisor are:

| Name ---- | Offices ----- |
|-------------------|--|
| David R. Schroder | Director, President and Secretary |
| Robert A. Comey | Director, Executive Vice President, and Treasurer |
| Kevin F. Mullane | Director and Senior Vice President |

Under the Agreement dated May 13, 1996 (the "Agreement"), between the Corporation, Zions Bancorporation ("Zions") and Zions First National Bank (the "Bank"), as amended, Zions and the Bank are permitted to increase their collective ownership of the Corporation's common stock to up to 40% of the issued and outstanding shares. As of November 30, 2001, Zions and the Bank were the beneficial owners of approximately 802,641 shares of the Corporation's Common Stock, representing approximately 34.46% of the outstanding shares.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Documents filed as part of this Report:

1. A. The following financial statements are incorporated by reference to the 2001 Annual Report.
 - Consolidated Balance Sheet at September 30, 2001
 - Consolidated Statement of Operations for the year ended September 30, 2001
 - Consolidated Statements of Changes in Net Assets for the years ended September 30, 2001 and September 30, 2000
 - Consolidated Statement of Cash Flows for the year ended September 30, 2001
 - Notes to Consolidated Financial Statements
 - Consolidated Schedule of Investments as of September 30, 2001
 - Notes to the Consolidated Schedule of Investments
- B. The Report of Independent Accountants with respect to the financial statements listed in A. above is incorporated by reference to the 2001 Annual Report.
2. No financial statement schedules of the Corporation are filed herewith because (i) such schedules are not required or (ii) the information required has been presented in the aforementioned financial statements and schedule of investments.

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3. The following exhibits are filed herewith or incorporated by reference as set forth below:

- 3.1* Certificate of Incorporation of the Corporation.
- 3.2** By-Laws of the Corporation.
- 4. See Exhibits 3.1 and 3.2.
- 10.1** Investment Advisory Agreement between the Corporation and InvestAmerica Investment Advisors, Inc., dated March 1, 1998.
- 10.1.a. First Amendment to Investment Advisory Agreement between the Corporation and InvestAmerica Investment Advisors, Inc., dated February 22, 2000.
- 10.1.b. Second Amendment to Investment Advisory Agreement between the Corporation and InvestAmerica Investment Advisors, Inc., dated February 27, 2001.

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- 10.2*** Investment Advisory Agreement between MorAmerica Capital Corporation and InvestAmerica Investment Advisors, Inc., dated March 1, 1999.
- 10.2.a. First Amendment to Investment Advisory Agreement between MorAmerica Capital Corporation and InvestAmerica Investment Advisors, Inc., dated February 27, 2001.
- 10.3.a.**** Agreement between the Corporation and Zions Bancorporation, dated May 13, 1996.
- 10.3.b.** First Amendment to Agreement between the Corporation, Zions Bancorporation and Zions First National Bank, dated April 29, 1998
- 10.3.c.***** Second Amendment to Agreement between the Corporation, Zions Bancorporation and Zions First National Bank, dated February 27, 2001
- 13 2001 Annual Report to Stockholders.
- 21 Subsidiary of the Corporation and jurisdiction of incorporation.

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

** Incorporated by reference to the Corporation's Annual Report on Form 10-K for the year ended September 30, 1998, as filed with the Commission on December 29, 1998.

*** Incorporated by reference to the Corporation's Quarterly Report on Form 10-Q for the three months ended March 31, 1999, as filed with the Commission on May 12, 1999.

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**** Incorporated by reference to the Corporation's Current Report on Form 8-K, dated May 13, 1996, filed with the Commission on May 13, 1996.

***** Incorporated by reference to the Corporation's Quarterly Report on Form 10-Q for the three months ended March 31, 2001, as filed with the Commission on May 14, 2001.

(b) Reports on Form 8-K.

No Reports on Form 8-K were filed during the three months ended September 30, 2001.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on December 28, 2001.

/s/ David R. Schroder

David R. Schroder
President and Secretary

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Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| Signature ----- | Date ---- |
|---|----------------------------|
| /s/ Paul M. Bass, Jr. ----- Paul M. Bass, Jr. Chairman of the Board of Directors | December 28, 2001 ----- |
| /s/ David R. Schroder ----- David R. Schroder Director, President and Secretary | December 28, 2001 ----- |
| /s/ Robert A. Comey ----- | December 28, 2001 ----- |

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Robert A. Comey
Director, Executive Vice President
and Treasurer

/s/ Henry T. Madden

Henry T. Madden
Director

December 28, 2001

/s/ John D. Wolfe

John D. Wolfe
Director

December 28, 2001

/s/ Michael W. Dunn

Michael W. Dunn
Director

December 28, 2001

/s/ Gordon J. Roth

Gordon J. Roth
Director

December 28, 2001

/s/ Todd J. Stevens

Todd J. Stevens
Director

December 28, 2001

/s/ Jeri J. Harman

Jeri J. Harman
Director

December 28, 2001
