

Mill City Ventures III, Ltd  
Form 10-Q  
May 12, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2015 OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 814-00991

**MILL CITY VENTURES III, LTD.**

(Exact name of registrant as specified in its charter)

Minnesota 90-0316651  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

328 Barry Avenue South #210, Wayzata, MN 55391

(Address of Principal Executive Offices)

(952) 479-1923

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed from last report)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of March 31, 2015, there were 12,151,493 shares of the issuer's common stock, \$0.001 par value, outstanding.

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**PART I – FINANCIAL INFORMATION**Item 1. Financial Statements

Mill City Ventures III, Ltd.

## Balance Sheets

	March 31, 2015 (unaudited)	December 31, 2014 (audited)
<b>ASSETS</b>		
Investments, at fair value		
Non-control / Non-affiliate investments (cost of \$7,314,965 and \$5,797,518, respectively)	\$ 8,694,679	\$ 7,171,509
Cash	2,783,237	4,105,911
Prepaid expenses	25,414	49,623
Receivable from sale of investments	40,185	82,103
Interest and dividends receivable	100,547	59,794
Leasehold improvements, net	29,855	31,882
Property and equipment, net	17,777	18,962
<b>Total Assets</b>	<b>\$ 11,691,694</b>	<b>\$ 11,519,784</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 26,442	\$ 36,098
Deferred interest income	28,145	-
Deferred rent	10,238	9,996
<b>Total Current Liabilities</b>	<b>64,825</b>	<b>46,094</b>
<b>Total Liabilities</b>	<b>64,825</b>	<b>46,094</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock, par value \$0.001 per share (250,000,000 common shares authorized; 12,151,493 and 12,151,493 issued and outstanding)	12,151	12,151
Additional paid-in capital	11,857,660	11,857,660
Accumulated deficit	(1,159,665 )	(1,159,665 )
Accumulated undistributed investment loss	(1,027,820 )	(1,028,423 )
Accumulated undistributed net realized gains on investment transactions	564,829	417,976
Net unrealized appreciation in value of investments	1,379,714	1,373,991

<b>Total Shareholders' Equity</b>	11,626,869	11,473,690
<b>Total Liabilities and Shareholders' Equity</b>	\$ 11,691,694	\$ 11,519,784
<b>Net Asset Value Per Common Share</b>	\$ 0.95	\$ 0.94

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

## Statement of Operations

(unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
<b>Investment Income</b>		
Interest income	\$ 138,526	\$ 29,466
Dividend income	25,318	12,298
<b>Total Investment Income</b>	163,844	41,764
<b>Operating Expenses</b>		
Professional fees	51,397	37,177
Payroll expense	41,474	41,446
Insurance expense	24,564	33,321
Occupancy	22,799	17,406
Directors' fees expense	15,000	15,000
Depreciation and amortization expense	3,212	3,098
Other general and administrative expenses	4,795	3,850
<b>Total Operating Expenses</b>	163,241	151,298
<b>Net Investment Income (Loss)</b>	603	(109,534 )
<b>Realized and Unrealized Gain on Investments</b>		
Net realized gain on investments	146,853	200,903
Net change in unrealized appreciation on investments	5,723	683,197
<b>Net Realized and Unrealized Gain on Investments</b>	152,576	884,100
<b>Net Increase in Net Asset Value Resulting from Operations</b>	\$ 153,179	\$ 774,566
<b>Net Increase in Net Assets Resulting from Operations per share:</b>		
Basic and diluted	\$ 0.01	\$ 0.06
Weighted-average number of common shares outstanding	12,151,493	12,169,422

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

Statements of Cash Flows

(unaudited)

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
<b>Cash flows from operating activities:</b>				
Net increase in net asset value resulting from operations	\$ 153,179		\$ 774,566	
<b>Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:</b>				
Net change in unrealized appreciation on investments	(5,723	)	(683,197	)
Net realized gain on investments	(146,853	)	(200,903	)
Payments for purchases of investments	(1,816,399	)	(1,280,000	)
Proceeds from sales of investments	445,805		622,894	
Depreciation and amortization expense	3,212		3,098	
<b>Changes in operating assets and liabilities:</b>				
Prepaid expenses	24,209		(69,796	)
Receivable from sale of investments	41,918		794	
Interest and dividends receivable	(40,753	)	3,750	
Accounts payable	(9,656	)	94,498	
Deferred interest income	28,145		15,000	
Accrued royalty	-		(619	)
Deferred rent	242		562	
<b>Net cash used in operating activities</b>	<b>(1,322,674</b>	<b>)</b>	<b>(719,353</b>	<b>)</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	-		(3,943	)
Purchases of leasehold improvements	-		(2,561	)
<b>Net cash used by investing activities</b>	<b>-</b>		<b>(6,504</b>	<b>)</b>
Net decrease in cash	(1,322,674	)	(725,857	)
Cash, beginning of the period	4,105,911		7,090,379	
Cash, end of the period	\$ 2,783,237		\$ 6,364,522	

See accompanying notes to financial statements.





Mill City Ventures III, Ltd.

Financial Highlights

(unaudited)

	Three Months Ended March 31, 2015	
<b>Per Share Data</b>		
Net asset value at beginning of the period	\$ 0.94	
Net investment income	0.00	
Net realized and unrealized gains	0.01	
Net asset value at end of period	\$ 0.95	
<b>Ratio / Supplemental Data</b>		
Per share market value of investments at end of period	\$ 0.72	
Shares outstanding at end of period	12,151,493	
Average weighted shares outstanding for period	12,151,493	
Net assets at end of period	\$ 11,626,869	
Average net assets <sup>(1)</sup>	\$ 11,561,049	
Portfolio turnover rate <sup>(2)</sup>	3.86	%
Ratio of operating expenses to average net assets <sup>(2)</sup>	(5.60	)%
Ratio of net investment income to average net assets <sup>(2)</sup>	0.02	%
Ratio of realized gains to average net assets <sup>(2)</sup>	5.25	%

<sup>(1)</sup> Based on the monthly average of net assets as of the beginning and end of each period presented.

<sup>(2)</sup> Ratios are annualized.

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

Schedule of Investments

As of March 31, 2015

(Unaudited)

<b>Portfolio Company</b>	<b>Description of Securities</b>	<b>Cost</b>	<b>Fair Value</b>
Creative Realities Inc.	12% Convertible Promissory Note (Mat. 8/18/16)†	\$1,000,000	\$1,000,000
	1,515,512 \$0.38 Cashless Warrants (Exp. 2/18/20)*†	-	-
BioLife Solutions	Common Stock*	107,500	40,250
	\$4.70 Cashless Warrants (Exp. 3/20/21)*	-	-
Combimatrix	\$1.97 Cashless Warrants (Exp. 12/29/2018)*	-	-
	\$3.12 Cashless Warrants (Exp. 12/19/2018)*	-	-
Mix 1 Life Inc.	12% Convertible Promissory Note (Mat. 2/6/16)	500,000	500,000
	12% Promissory Note (Mat. 3/13/16)†	250,000	250,000
	Common Stock*	-	2,002,554
Tzfat Spirits of Israel, LLC	Class A Membership Units*†	101,019	25,000
Insite Software Solutions, Inc.	10.5% Promissory Note (Mat. 12/30/2018)	750,000	750,000
	\$0.01 Warrants (Change Of Control) (Exp. 12/30/23)*	-	-
MAX 4G Wireless, Inc.	Series B Convertible Preferred Stock*†	150,000	150,000
Calamos Convertible and High Income Fund	Closed End Fund	128,357	141,700
Powershares KBW High Dividend Yield Financial	ETF	253,510	254,400
Solar Senior Capital, Ltd.	Common Stock	91,983	97,417
DBR Phase III US Investors, LLC	Membership Units†	1,000,000	1,000,000
The Igloo, LLC	20% Senior Secured Note (Mat. 12/31/16)†	500,000	500,000
Discovery Communications Inc	Common Stock Series A	149,609	153,800
Dala Petroleum (aka Westcott Products)	Series A 6% Convertible Preferred Stock	500,000	500,000
	714,286 \$1.35 Cashless Warrants (Exp. 6/3/17)*	-	-
Northern Capital Partners I, LP	Membership Units*†	500,000	444,208
Southern Plains Resources, Inc.	Common Stock*	730,000	300,000
Hi-Crush Partners, LP	Limited Partnership Units	183,660	175,350
AT&T Inc.	Common Stock	175,260	163,250
Century Link Inc	Common Stock	157,360	172,750
Windstream Holdings	Common Stock	86,707	74,000
	<b>Total Investments</b>	<b>\$7,314,965</b>	<b>\$8,694,679</b>

†Restricted security

\* Indicates securities are not income producing

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Mill City Ventures III, Ltd.

Portfolio Investments by Industry

As of March 31, 2015

(Unaudited)

Security Name	Industry	Date of Initial Investment	Investment	Quantity or Face Value	Cost	Fair Value	% of Net Assets
<b>Creative Realities, Inc.</b>	Advertising	2/18/2011	Promissory Note	1,000,000	\$1,000,000	\$1,000,000	
<b>Creative Realities, Inc.</b>	Advertising	2/18/2011	Warrants	1,515,152	—	—	
					1,000,000	1,000,000	8.60 %
<b>Bio Life Solutions, Inc.</b>	Bio-technology	3/20/2010	Common Stock	25,000	107,500	40,250	
<b>Bio Life Solutions, Inc.</b>	Bio-technology	3/20/2010	Warrants	100,000	—	—	
<b>Combimatrix Corporation</b>	Bio-technology	5/5/2009	Warrants	413,934	—	—	
					107,500	40,250	0.35 %
<b>Mix 1 Life, Inc.</b>	Consumer	2/5/2010	Promissory Note	500,000	500,000	500,000	
<b>Mix 1 Life, Inc.</b>	Consumer	3/8/2011	Promissory Note	250,000	250,000	250,000	
<b>Mix 1 Life, Inc.</b>	Consumer	8/6/2010	Common Stock	324,563	—	2,002,554	
<b>Tzfat Spirits of Israel, LLC</b>	Consumer	10/13/2009	Membership Units	55,000	101,019	25,000	
					851,019	2,777,554	23.89 %
<b>Insite Software Solutions, Inc.</b>	Information Technology	12/29/2009	Promissory Note	750,000	750,000	750,000	
<b>Insite Software Solutions, Inc.</b>	Information Technology	12/29/2009	Warrants	108,960	—	—	
<b>MAX 4G</b>	Information Technology	6/13/2009	Preferred Stock	300,000	150,000	150,000	
					900,000	900,000	7.74 %
<b>Calamos Convertible &amp;</b>	Investment Fund	11/4/2009	Common Stock	10,000	128,357	141,700	

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<b>High Income Fund Powershares High Dividend Yield Solar Senior Capital Ltd</b>	Investment Fund	5/11/2010	Common Stock	10,000	253,510	254,400	
	Investment Fund	1/15/2011	Common Stock	6,047	91,983	97,417	
					473,850	493,517	4.24 %
<b>DBR Phase III US Investors, LLC</b>	Leisure & Hospitality	2/6/2010	LP Units	1,000,000	1,000,000	1,000,000	
<b>The Igloo LLC</b>	Leisure & Hospitality	12/30/2010	Promissory Note	500,000	500,000	500,000	
					1,500,000	1,500,000	12.90 %
<b>Discovery Communications Inc.</b>	Media	1/22/2011	Common Stock	5,000	149,609	153,800	1.32 %
<b>Dala Petroleum, Inc.</b>	Oil & Gas	6/2/2010	Preferred Stock	500	500,000	500,000	
<b>Dala Petroleum, Inc.</b>	Oil & Gas	6/2/2010	Warrants	714,286	—	—	
<b>HI Crush Partners</b>	Oil & Gas	2/23/2011	Common Stock	5,000	183,660	175,350	