

Mill City Ventures III, Ltd
Form 10-Q
November 12, 2014

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 September 30, 2014

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
(State or other jurisdiction of incorporation or organization)

90-0316651
(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 <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="checkbox"/> |

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 November 11, 2014, there were 12,161,939 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

| | September 30, 2014 (unaudited) | December 31, 2013 (audited) |
|--|-----------------------------------|--------------------------------|
| ASSETS | | |
| Investments, at fair value | | |
| Non-control / Non-affiliate investments (cost of \$4,887,517 and \$3,104,426, respectively) | \$ 7,128,554 | \$ 3,342,319 |
| Cash | 5,292,240 | 7,090,379 |
| Prepaid expenses | 67,401 | 54,401 |
| Receivable from sale of investments | 33,467 | 794 |
| Interest and dividends receivable | 45,377 | 3,750 |
| Leasehold improvements, net | 33,909 | 38,157 |
| Property and equipment, net | 20,147 | 18,683 |
| Total Assets | \$ 12,621,095 | \$ 10,548,483 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 14,908 | 18,284 |
| Accrued royalty | - | 619 |
| Deferred rent | 9,435 | 7,750 |
| Total Current Liabilities | 24,343 | 26,653 |
| Total Liabilities | 24,343 | 26,653 |
| SHAREHOLDERS' EQUITY | | |
| Common Stock, par value \$0.001 per share (250,000,000 common shares authorized; 12,169,422 and 12,169,422 issued and outstanding) | 12,162 | 12,169 |
| Additional paid-in capital | 11,868,095 | 11,875,571 |
| Accumulated deficit | (1,159,665) | (1,159,665) |
| Accumulated undistributed investment loss | (785,854) | (572,675) |
| Accumulated undistributed net realized gains on investment transactions | 420,977 | 128,537 |
| Net unrealized appreciation in value of investments | 2,241,037 | 237,893 |

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| | | |
|--|---------------|---------------|
| Total Shareholders' Equity | 12,596,752 | 10,521,830 |
| Total Liabilities and Shareholders' Equity | \$ 12,621,095 | \$ 10,548,483 |
| Net Asset Value Per Common Share | \$ 1.03 | \$ 0.86 |

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

Statement of Operations

(unaudited)

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | |
|--|--|--|---|
| Investment Income | | | |
| Interest income | \$ 59,882 | \$ 1,787 | |
| Dividend income | 32,483 | 1,252 | |
| Total Investment Income | 92,365 | 3,039 | |
| Operating Expenses | | | |
| Professional fees | 29,986 | 59,201 | |
| Payroll expense | 40,473 | 40,418 | |
| Insurance expense | 24,830 | 33,793 | |
| Occupancy | 21,521 | 9,066 | |
| Directors' fees expense | 15,000 | 5,000 | |
| Depreciation and amortization expense | 3,212 | - | |
| Other general and administrative expenses | 4,403 | 2,362 | |
| Total Operating Expenses | 139,425 | 149,840 | |
| Net Investment Loss | (47,060 |) (146,801 |) |
| Realized and Unrealized Gain (Loss) on Investments | | | |
| Net realized gain on investments | 91,537 | 737 | |
| Net change in unrealized appreciation (depreciation) on investments | 1,482,535 | (40,252 |) |
| Net Realized and Unrealized Gain (Loss) on Investments | 1,574,072 | (39,515 |) |
| Net Increase (Decrease) in Net Asset Value Resulting from Operations | \$ 1,527,012 | \$ (186,316 |) |
| Net Increase (Decrease) in Net Assets Resulting from Operations per share: | | | |
| Basic and diluted | \$ 0.13 | \$ (0.02 |) |
| Weighted-average number of common shares outstanding | 12,167,064 | 12,169,422 | |

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

Statement of Operations

(unaudited)

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|--|---|---|
| Investment Income | | |
| Interest income | \$ 148,384 | \$ 10,276 |
| Dividend income | 70,760 | 3,175 |
| Total Investment Income | 219,144 | 13,451 |
| Operating Expenses | | |
| Professional fees | 102,368 | 196,708 |
| Payroll expense | 122,392 | 161,683 |
| Registration statement expense | - | 26,805 |
| Insurance expense | 82,946 | 70,148 |
| Occupancy | 59,722 | 18,066 |
| Directors' fees expense | 45,000 | 20,000 |
| Depreciation and amortization expense | 9,446 | - |
| Other general and administrative expenses | 11,848 | 8,500 |
| Total Operating Expenses | 433,722 | 501,910 |
| Net Investment Loss | (214,578 |) (488,459 |
| Realized and Unrealized Gain on Investments | | |
| Net realized gain on investments | 292,440 | 77,913 |
| Net change in unrealized appreciation on investments | 2,003,144 | 200,075 |
| Net realized and Unrealized Gain on Investments | 2,295,584 | 277,988 |
| Net Increase (Decrease) in Net Asset Value Resulting from Operations | \$ 2,081,006 | \$ (210,471 |
| Net Increase (Decrease) in Net Assets Resulting from Operations per share: | | |
| Basic and diluted | \$ 0.17 | \$ (0.02 |
| Weighted-average number of common shares outstanding | 12,168,627 | 9,562,700 |

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

Statements of Cash Flows

(unaudited)

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|--|---|---|
| Cash flows from operating activities: | | |
| Net increase (decrease) in net asset value resulting from operations | \$ 2,081,006 | \$ (210,471) |
| Adjustments to reconcile net decrease in net assets / net loss resulting from operations to net cash used in operating activities: | | |
| Net change in unrealized appreciation on investments | (2,003,144) | (200,075) |
| Net realized gain on investments | (292,440) | (77,913) |
| Payments for purchases of investments | (2,558,510) | (1,387,433) |
| Sales of investments in securities | 1,067,859 | 184,746 |
| Depreciation and amortization expense | 9,446 | - |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | (13,000) | (88,913) |
| Receivable from sale of investments | (32,673) | - |
| Interest and dividends receivable | (41,627) | - |
| Accounts payable | (3,376) | 4,754 |
| Interest payable | - | (14,670) |
| Accrued royalty | (619) | - |
| Deferred rent | 1,685 | - |
| Accrued payroll | - | 40,369 |
| Net cash used in operating activities | (1,785,393) | (1,749,606) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (4,101) | (12,976) |
| Purchases of leasehold improvements | (2,561) | (22,665) |
| Net cash used by investing activities | (6,662) | (35,641) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | - | 10,165,000 |
| Purchase of retired shares of common stock | (6,084) | - |
| Payment on notes payable related party | - | (95) |
| Net cash provided by financing activities | (6,084) | 10,164,905 |
| Net increase (decrease) in cash | (1,798,139) | 8,379,658 |

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| | | |
|--|--------------|--------------|
| Cash, beginning of the period | 7,090,379 | 603,621 |
| Cash, end of the period | \$ 5,292,240 | \$ 8,983,279 |
| Non-cash financing activities: | | |
| Conversion of subscription payable to common stock | \$ - | \$ 500,000 |
| Non-cash investing activities: | | |
| Accrued purchase of leasehold improvements | \$ - | \$ 18,519 |

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

Financial Highlights

| | Nine Months Ended September 30, 2014 | |
|---|---|----|
| Per Share Data | | |
| Net asset value at beginning of the period | \$ 0.86 | |
| Net investment loss | (0.02 |) |
| Net realized and unrealized gains | 0.19 | |
| Net asset value at end of period | \$ 1.03 | |
| Ratio / Supplemental Data | | |
| Per share market value of investments at end of period | \$ 0.59 | |
| Shares outstanding at end of period | 12,161,939 | |
| Average weighted shares outstanding for period | 12,168,627 | |
| Net assets at end of period | \$ 12,596,752 | |
| Average net assets ⁽¹⁾ | \$ 11,166,666 | |
| Portfolio turnover rate ⁽²⁾ | 9.56 | % |
| Ratio of operating expenses to average net assets ⁽²⁾ | (5.14 |)% |
| Ratio of net investment loss to average net assets ⁽²⁾ | (2.56 |)% |
| Ratio of realized gains to average net assets ⁽²⁾ | 3.52 | % |

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

⁽²⁾ Ratios are annualized.

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

Schedule of Investments

As of September 30, 2014

| Name of Portfolio Company | Industry | Date of Initial Investment | Investments | Shares | Cost | Fair Value | % of Total Assets | Level |
|---|------------------------|-----------------------------------|--------------------|---------------|-------------|-------------------|--------------------------|--------------|
| Southern Plains Resources, Inc. * | Oil & Gas | 3/14/13 | Common Stock | 600,000 | \$730,000 | \$930,000 | 7.4% | 3 |
| Tzfat Spirits of Israel, LLC * | Consumer Discretionary | 10/14/13 | Membership Units | 55,000 | 101,019 | - | - | 3 |
| Max 4G * | Information Technology | 6/14/13 | Preferred Stock | 300,000 | 150,000 | 150,000 | 1.2% | 3 |
| AT&T | Telecommunications | 10/25/13 | Common Stock | 5,000 | 175,260 | 176,200 | 1.4% | 1 |
| BioLife Solutions, Inc. * | Biotechnology | 3/21/14 | Common Stock | 100,000 | 430,000 | 210,000 | 1.7% | 1 |
| BioLife Solutions, Inc. * | Biotechnology | 3/21/14 | Warrants | 100,000 | - | - | - | 3 |
| Calamos Convertible & High Income Fund | Closed End Fund | 11/5/13 | Common Stock | 10,000 | 128,357 | 141,800 | 1.1% | 1 |
| CenturyLink, Inc Frontier Communications Corp | Telecommunications | 10/28/13 | Common Stock | 5,000 | 157,360 | 204,450 | 1.6% | 1 |
| | Telecommunications | 11/20/13 | | | | | | |