

Mill City Ventures III, Ltd
Form 10-Q
May 15, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

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 814-00991

MILL CITY VENTURES III, LTD.

(Exact name of registrant as specified in its charter)

Minnesota

90-0316651

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

328 Barry Avenue South #210, Wayzata, Minnesota
(Address of principal executive offices)

55391
(Zip Code)

(952) 479-1923

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since 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. x Yes " No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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). x Yes " No

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

Large accelerated filer " Accelerated filer "
Non-accelerated filer " Smaller reporting company x
Emerging growth company "

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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 May 12, 2017, Mill City Ventures III, Ltd. had 12,151,493 shares of common stock, and no other classes of capital stock, outstanding.

MILL CITY VENTURES III, LTD.

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for the Quarter Ended March 31, 2017

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****MILL CITY VENTURES III, LTD.****BALANCE SHEETS**

	March 31, 2017 (unaudited)	December 31, 2016 (audited)
ASSETS		
Investments at fair value:		
Non-control/non-affiliate investments (cost of \$6,483,185 and \$7,397,908, respectively)	\$5,469,140	\$ 6,987,002
Cash	4,070,866	2,344,751
Prepaid expenses	39,220	61,661
Receivable for sale of investments	2,057	-
Interest and dividends receivable	10,748	4,853
Leasehold improvements, net	13,638	15,665
Property and equipment, net	9,225	9,946
Total Assets	\$9,614,894	\$ 9,423,878
LIABILITIES		
Current Liabilities:		
Accounts payable	\$31,090	\$ 25,097
Payable for purchases of investments	205,698	-
Deferred rent	11,216	11,373
Total Current Liabilities	248,004	36,470
Total Liabilities	248,004	36,470
Commitments and Contingencies (Note 4)		
SHAREHOLDERS' EQUITY (NET ASSETS)		
Common stock, par value \$0.001 per share (250,000,000 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	(1,459,855)	(1,330,205)
Accumulated undistributed net realized gains on investment transactions	1,130,644	418,373
Net unrealized depreciation in value of investments	(1,014,045)	(410,906)
Total Shareholders' Equity (net assets)	9,366,890	9,387,408

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Total Liabilities and Shareholders' Equity	\$9,614,894	\$9,423,878
Net Asset Value Per Common Share	\$0.77	\$0.77

See accompanying Notes to Financial Statements

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MILL CITY VENTURES III, LTD.

STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Investment Income		
Interest income	\$23,197	\$70,041
Dividend income	13,367	16,282
Total Investment Income	36,564	86,323
Operating Expenses		
Professional fees	66,736	40,007
Payroll	41,358	41,409
Insurance	17,446	21,357
Occupancy	19,822	24,175
Directors' fees	15,000	13,956
Depreciation and amortization	2,748	3,212
Other general and administrative	3,104	2,601
Total Operating Expenses	166,214	146,717
Net Investment Loss	\$(129,650)	\$(60,394)
Realized and Unrealized Gain on Investments		
Net realized gain (loss) on investments	712,271	(542,095)
Net change in unrealized appreciation (depreciation) on investments	(603,139)	581,649
Net Realized and Unrealized Gain on Investments	109,132	39,554
Net Decrease in Net Assets Resulting from Operations	\$(20,518)	\$(20,840)
Net Increase (Decrease) in Net Assets Resulting from Operations per share:		
Basic and diluted	\$0.00	\$0.00
Weighted-average number of common shares outstanding	12,151,493	12,151,493

See accompanying Notes to Financial Statements

MILL CITY VENTURES III, LTD.

STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
Net Assets at Beginning of Period	\$ 9,387,408		\$ 8,741,288	
Net investment loss	(129,650)	(60,394)
Net realized gain (loss) on investments	712,271		(542,095)
Net increase (decrease) in unrealized appreciation on investments	(603,139)	581,649	
Net decrease in net assets resulting from operations	(20,518)	(20,840)
Total net decrease in net assets resulting from operations	(20,518)	(20,840)
Net Assets at End of Period	\$ 9,366,890		\$ 8,720,448	
Accumulated undistributed net investment loss	\$ (1,459,855)	\$ (1,160,321)

MILL CITY VENTURES III, LTD.

STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Cash flows from operating activities:		
Net decrease in net asset value resulting from operations	\$(20,518)	\$(20,840)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided in operating activities:		
Net change in unrealized (appreciation) depreciation on investments	603,139	(581,649)
Net realized (gain) loss on investments	(712,271)	542,095
Payments for purchases of investments	(694,120)	(749,146)
Proceeds from sales of investments	2,321,114	972,565
Depreciation and amortization expense	2,748	3,212
Changes in operating assets and liabilities:		
Prepaid expenses	22,441	28,499
Receivable from sale of investments	(2,057)	-
Interest and dividends receivable	(5,895)	17,705
Accounts payable	5,993	9,684
Deferred interest income	-	(5,645)
Deferred rent	(157)	82
Payable for investment purchase	205,698	(65,622)
Net cash provided in operating activities	1,726,115	150,940
Net increase in cash	1,726,115	150,940
Cash, beginning of period	2,344,751	2,980,659
Cash, end of period	\$4,070,866	\$3,131,599

See accompanying Notes to Financial Statements

Mill City Ventures III, Ltd
Schedule of Investments (Unaudited)
March 31, 2017

Investments (1)	Investment Type	Interest Rate (2)	Maturity Date	Principal Amount	Cost	Fair Value	Percentage of Net Assets	Gross		Net Unrealized Appreciation (Depreciation)
								Unrealized Appreciation	Unrealized Depreciation	
Debt Investments										
Consumer										
Mix 1 Life, Inc.	Secured Loan (4)	12%	2/5/2012	\$ 500,000	\$ 500,000	\$ —		\$—	\$500,000	\$(500,000)
Mix 1 Life, Inc.	Secured Loan	12%	3/12/2012	\$ 250,000	250,000	—		—	250,000	(250,000)
					750,000	—	0.00%	—	750,000	(750,000)
Financial										
Bravo Financial LLC	Secured Loan	12%	8/30/2014	\$ 500,000	500,000	500,000	5.34%	—	—	—
Oil & Gas										
Dala Petroleum, Inc.	Secured Loan	12%	12/30/2011	\$ 25,000	25,000	—		—	25,000	(25,000)
Dala Petroleum, Inc.	Secured Loan	12%	12/21/2012	\$ 35,195	35,195	—		—	35,195	(35,195)
Dala Petroleum, Inc.	Secured Loan	12%	12/15/2013	\$ 22,500	22,500	—		—	22,500	(22,500)
Dala Petroleum, Inc.	Secured Loan	12%	1/29/2013	\$ 10,000	10,000	—		—	10,000	(10,000)
					92,695	—	0.00%	—	92,695	(92,695)
Leisure & Hospitality										
DBR Enclave US Investors, LLC	Secured Loan	15%	1/30/2016	\$ 333,333	333,333	333,333	3.56%	—	—	—
					\$ 1,676,028	\$ 833,333	8.90%	\$—	\$842,695	\$(842,695)

Total Debt
Investments

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Investments ⁽¹⁾	Investment Type ⁽⁵⁾	Interest Rate ⁽⁶⁾	Expiration Date ⁽⁷⁾	Shares/ Units	Cost	Fair Value	Percentage		Gross Unrealized Appreciation Dep	Gross Un
							of Net Assets	%		
Equity Investments										
Advertising										
Creative Realities, Inc.	Warrants ⁽⁸⁾	n/a	12/27/2016	1,071,429	\$—	\$—	0.00	%	\$—	\$—
Bio-technology										
Bio Life Solutions, Inc.	Warrants ⁽⁸⁾	n/a	3/19/2017	100,000	—	—	—		—	—
Combimatrix Corporation	Warrants ⁽⁸⁾	n/a	5/5/2015	5,464	—	—	—		—	—
Combimatrix Corporation	Warrants ⁽⁸⁾	n/a	6/27/2015	5,464	—	—	—		—	—
Combimatrix Corporation	Warrants ⁽⁸⁾	n/a	12/18/2014	16,666	—	—	—		—	—
					—	—	0.00	%	—	—
Consumer										
Escalade Inc.	Common Stock	n/a	n/a	7,929	93,975	102,284	8,309		—	—
Forward Industries, Inc.	Common Stock ⁽⁸⁾	n/a	n/a	100	147	119	—		—	28
Mix 1 Life, Inc.	Common Stock ⁽⁸⁾	n/a	n/a	1,516,219	—	90,973	90,973		—	—
Mix 1 Life, Inc.	Common Stock ⁽¹⁰⁾	n/a	n/a	100,000	46,160	4,800	—		—	41
Stanley Furniture Co., Inc.	Common Stock ⁽⁸⁾	n/a	n/a	68,500	65,241	53,430	—		—	11
Tzfat Spirits of Israel, LLC	LLC Membership Units ⁽⁸⁾	n/a	n/a	55,000	101,019	25,000	—		—	76
					306,542	276,606	2.95	%	99,282	12
Education										
Nat'l Amer. Univ. Holdings, Inc.	Common Stock	n/a	n/a	59,839	119,027	146,606	1.57	%	27,579	—
Financial										
OTC Markets Group	Common Stock	n/a	n/a	20,000	317,287	430,000	—		112,713	—
CI A	Common Stock ⁽⁸⁾	n/a	n/a	15,000	10,655	12,300	—		1,645	—
QC Holdings, Inc.	Common Stock ⁽⁸⁾	n/a	n/a	15,000	327,942	442,300	4.72	%	114,358	—
Healthcare										
	Warrants ⁽⁸⁾	n/a	10/20/2016	40,000	—	7,000	0.07	%	7,000	—

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WaferGen Bio-Systems, Inc. Information Technology										
Insite Software Solutions, Inc	Warrants ⁽⁸⁾	n/a	12/29/2019	108,960	—	—			—	—
MAX 4G, Inc.	Preferred Stock ⁽⁸⁾	n/a	n/a	300,000	150,000	300,000			150,000	—
Mitek Systems Inc.	Common Stock ⁽⁸⁾	n/a	n/a	7,772	50,540	51,684			1,144	—
Simulations Plus, Inc.	Common Stock	n/a	n/a	25,001	246,710	293,756			47,046	—
Travelzoo, Inc.	Common Stock	n/a	n/a	20,000	224,856	193,000			—	31
					672,106	838,440	8.95 %		198,190	31
Leisure & Hospitality										
Bitesquad.com LLC	Preferred LLC Units ⁽⁴⁾ ⁽⁸⁾	n/a	n/a	73,543	1,014,893	2,020,226	21.57 %		1,005,333	—
Oil & Gas										
Dala Petroleum, Inc.	Preferred Stock ⁽⁸⁾	n/a	n/a	500	500,000	—			—	50
Dala Petroleum, Inc.	Warrants ⁽⁸⁾	n/a	6/2/2013	714,286	—	—			—	—
Northern Capital Partners I, LP	Limited Partnership Units ⁽⁸⁾	n/a	n/a	550,000	550,000	488,629			—	61
Southern Plains Resources, Inc.	Common Stock ⁽⁸⁾	n/a	n/a	600,000	730,000	—			—	73
					1,780,000	488,629	5.22 %		—	1,114
Publishing Educational Development Corp.	Common Stock	n/a	n/a	50,000	503,557	337,500	3.60 %		1,796	16
Telecommunications										
Tessco Technologies Inc.	Common Stock	n/a	n/a	5,000	83,090	78,500	0.84 %		—	4
Total Equity Investments					\$4,807,157	\$4,635,807	49.49 %		\$1,453,538	\$1,453,538
Total Cash and Cash Equivalents					\$4,070,866	\$4,070,866	43.46 %		\$—	\$—
Total Investments, Cash and Cash Equivalents					\$10,554,051	\$9,540,006	101.85 %		\$1,453,538	\$2,907,074

(1)

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All investments and all cash, restricted cash and cash equivalents are “qualifying assets” under Section 55(a) of the Investment Company Act of 1940 unless indicated to the contrary in the table or by footnote.

- (2) Interest is presented on a per annum basis.
- (3) Investment is secured but payment and collateral are subordinated to the debt of another creditor by contract.
- (4) Investment is convertible into common equity of the issuer.
- (5) In the case of warrants, warrants provide for the right to purchase common equity of the issuer.
- (6) In the case of preferred stock, this represents the right to annual cumulative dividends calculated on a per annum basis.
- (7) In the case of warrants, purchase rights under the warrants will expire at the close of business on this date.
- (8) Investment is not an income-producing investment. Includes 1,666,668 shares valued under the Mix 1 Life, Inc. secured \$500,000 as of December 31, 2016.
Investment is neither a “qualifying asset” under Section 55(a) of the Investment Company Act of 1940, nor a
- (9) restricted security. At March 31, 2017, aggregate non-qualifying assets represented approximately 8.3% of our total assets.
- (10) Value reflects 20% discount for restricted nature of securities

Mill City Ventures III, Ltd
Schedule of Investments
December 31, 2016

Investments (1)	Investment Type	Interest Rate ⁽²⁾	Maturity Date	Principal Amount	Cost	Fair Value	Percentage of Net Assets	Gross	Gross	Net
								Unrealized Appreciation	Unrealized Depreciation	Unrealized Appreciation (Depreciation)
Debt Investments										
Consumer										
Mix 1 Life, Inc.	Secured Loan ⁽⁴⁾	12%	2/5/2012	\$ 500,000	\$ 500,000	\$ 180,000		\$—	\$320,000	\$(320,000)
Mix 1 Life, Inc.	Secured Loan	12%	3/12/2012	\$ 250,000	250,000	—		—	250,000	(250,000)
					750,000	180,000	1.92 %	—	570,000	(570,000)
Financial										
Bravo										
Financial LLC	Secured Loan	12%	8/30/2014	\$ 500,000	500,000	500,000	5.33 %	—	—	—
Oil & Gas										
Dala										
Petroleum, Inc.	Secured Loan	12%	12/30/2011	\$ 25,000	25,000	—		—	25,000	(25,000)
Petroleum, Inc.	Secured Loan	12%	12/21/2012	\$ 35,195	35,195	—		—	35,195	(35,195)
Petroleum, Inc.	Secured Loan	12%	12/15/2013	\$ 22,500	22,500	—		—	22,500	(22,500)
					82,695	—	0.00 %	—	82,695	(82,695)
Total Debt Investments					\$ 1,332,695	\$ 680,000	7.24 %	\$—	\$652,695	\$(652,695)

Investments ⁽¹⁾	Investment Type ⁽⁵⁾	Interest Rate ⁽⁶⁾	Expiration Date ⁽⁷⁾	Shares/Units	Cost	Fair Value	Percentage of Net Assets	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation (Depreciation)
Equity Investments										
Advertising										
Creative Realities, Inc.	Warrants ⁽⁸⁾	n/a	12/27/2016	1,071,429	\$—	\$32,143	0.00%	\$32,143	\$—	\$32,143
Bio-technology										
Bio Life Solutions, Inc.	Warrants ⁽⁸⁾	n/a	3/19/2017	100,000	—	—		—	—	—
Combimatrix Corporation	Warrants ⁽⁸⁾	n/a	5/5/2015	5,464	—	—		—	—	—
Combimatrix Corporation	Warrants ⁽⁸⁾	n/a	6/27/2015	5,464	—	—		—	—	—
Combimatrix Corporation	Warrants ⁽⁸⁾	n/a	12/18/2014	16,666	—	—		—	—	—
					—	—	0.00%	—	—	—
Consumer										
Escalade Inc.	Common Stock	n/a	n/a	7,929	93,975	104,663		10,688	—	10,688
Mix 1 Life, Inc.	Common Stock ⁽⁸⁾	n/a	n/a	40,051	—	15,219		15,219	—	15,219
Mix 1 Life, Inc.	Common Stock ⁽¹⁰⁾	n/a	n/a	100,000	46,160	30,000		—	16,160	(16,160)
Tzfat Spirits of Israel, LLC	LLC Membership Units ⁽⁸⁾	n/a	n/a	55,000	101,019	25,000		—	76,019	(76,019)
					241,154	174,882	1.86%	25,907	92,179	(66,272)
Education										
Nat'l Amer. Univ. Holdings, Inc.	Common Stock	n/a	n/a	59,839	119,027	116,686	1.24%	992	3,333	(2,341)
Financial										
Comm. Sales & Leasing	Common Stock ⁽⁹⁾	n/a	n/a	2,000	65,620	50,820		—	14,800	(14,800)
OTC Markets Group Cl A	Common Stock	n/a	n/a	19,074	297,381	438,702		141,321	—	141,321
QC Holdings, Inc.	Common Stock ⁽⁸⁾	n/a	n/a	15,000	10,655	11,100		445	—	445
					373,656	500,622	5.33%	141,766	14,800	126,966
Healthcare		n/a	n/a	85,210	369,800	420,085		50,285	—	50,285

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WaferGen Bio-Systems, Inc.	Common Stock ⁽⁸⁾									
WaferGen Bio-Systems, Inc.	Warrants ⁽⁸⁾	n/a	10/20/2016	40,000	—	—	—	—	—	—
					369,800	420,085	4.47%	50,285	—	50,285
Information Technology Insite Software Solutions, Inc	Warrants ⁽⁸⁾	n/a	12/29/2019	108,960	—	—	—	—	—	—
MAX 4G, Inc.	Preferred Stock ⁽⁸⁾	n/a	n/a	300,000	150,000	300,000	—	150,000	—	150,000
Mitek Systems Inc.	Common Stock ⁽⁸⁾	n/a	n/a	7,772	50,540	47,798	—	—	2,742	(2,742)
Simulations Plus, Inc.	Common Stock	n/a	n/a	18,639	173,310	179,862	—	10,659	4,107	6,552
Travelzoo, Inc.	Common Stock	n/a	n/a	15,100	177,459	141,940	—	—	35,519	(35,519)
					551,309	669,600	7.13%	160,659	42,368	118,297
Investment Fund Calamos Conv. & High Inc. Fund										