

Mill City Ventures III, Ltd
Form 10-Q
August 14, 2013

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 June 30, 2013

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)

20-4709758
(I.R.S. Employer Identification No.)

130 West Lake Street, Suite 300, Wayzata, MN

(Address of Principal Executive Offices)

(952) 473-3442

(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 August 13, 2013 there were 12,169,422 shares of the issuer's common stock, \$0.001 par value, outstanding.

Table of Contents

Index

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
PART II. OTHER INFORMATION	
Item 6. Exhibits	24
SIGNATURES	25

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

Mill City Ventures III, Ltd.

(formerly Poker Magic, Inc.)

Balance Sheets

ASSETS	June 30, 2013 (unaudited)	December 31, 2012 (audited)
Investments, at fair value	\$ 1,212,160	\$ -
Non-control / Non-affiliate investments (cost of \$971,833 and \$0, respectively)		
Cash	9,497,552	603,621
Interest and dividends receivable	67	-
Prepaid expenses	111,686	-
Total Assets	\$ 10,821,465	\$ 603,621
LIABILITIES		
Current Liabilities		
Accounts payable	61,557	25,162
Accrued wages	40,369	-
Accrued directors' fees	15,000	-
Accrued royalty	619	619
Notes payable – related-party short-term	-	95
Interest payable	-	14,670
Total Current Liabilities	117,545	40,546
Long-Term Liabilities		
Subscription payable	-	500,000
Total Long-Term Liabilities	-	500,000
Total Liabilities	117,545	540,546

Commitments and contingencies

SHAREHOLDERS' EQUITY

Edgar Filing: Mill City Ventures III, Ltd - Form 10-Q

Common Stock, par value \$0.001 per share (250,000,000 common shares authorized; 12,169,422 and 1,504,422 issued and outstanding, respectively)	12,169	1,504
Additional paid-in capital	11,875,571	1,221,236
Accumulated deficit	(1,159,665)	(1,159,665)
Accumulated undistributed investment loss	(341,658)	-
Accumulated undistributed net realized gains on investment transactions	77,176	-
Net unrealized appreciation in value of investments	240,327	-
Total Shareholders' Equity	10,703,920	63,075
Total Liabilities and Shareholders' Equity	\$ 10,821,465	\$ 603,621
Net Asset Value Per Common Share	\$ 0.88	\$ 0.04

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

(formerly Poker Magic, Inc.)

Statement of Operations

(unaudited)

	As a Business Development Company	
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Investment Income		
Interest income	\$ 4,927	\$ 8,489
Dividend income		
Non-affiliate investments	1,923	1,923
Total Investment Income	6,850	10,412
Operating Expenses		
Professional fees	53,688	135,947
Payroll expense	40,528	121,265
Registration statement expense	5,060	28,365
Insurance expense	33,714	36,355
Directors' fees expense	15,000	15,000
Other general and administrative expenses	12,895	15,138
Total Operating Expenses	160,885	352,070
Net Investment Loss	(154,035) (341,658
Realized and Unrealized Gain on Investments		
Net realized gain on investments	77,176	77,176
Net change in unrealized appreciation on investments	240,327	240,327
Net realized and Unrealized Gain on Investments	317,503	317,503
Net Increase (Decrease) in Net Asset Value Resulting from Operations	\$ 163,468	\$ (24,155
Net Increase (Decrease) in Net Assets Resulting from Operations per share:		
Basic and diluted	\$ 0.01	\$ (0.00
Weighted-average number of common shares outstanding	12,169,422	8,237,737

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

(formerly Poker Magic, Inc.)

Statement of Operations

(unaudited)

	Prior to Becoming a Business Development Company	
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Revenues	\$ -	\$ -
Cost of revenues	-	-
Gross loss	-	-
Operating expenses:		
Selling, general and administrative	20,768	63,627
Operating Loss	(20,768)	(63,627)
Other Expense		
Interest expense	(6,680)	(13,090)
Total Other Expense	(6,680)	(13,090)
Net Loss	\$ (27,448)	\$ (76,717)
Basic and diluted net loss per common share	\$ (0.03)	\$ (0.07)
Weighted-average number of common shares outstanding	1,054,566	1,049,111

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

(formerly Poker Magic, Inc.)

Statements of Cash Flows

(unaudited)

	As a Business Development Company Six Months Ended June 30, 2013	Prior to Becoming a Business Development Company Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net (decrease) in net asset value resulting from operations / Net loss from operations	\$ (24,155) \$ (76,717)
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 or depreciation on investments	(240,327) -
Net realized gain on investments	(77,176) -
Payments for purchases of investments	(1,076,833) -
Sales of investments in securities	182,176	-
Officers compensation paid in stock		24,000
Changes in operating assets and liabilities:		
Prepaid expenses	(111,686) -
Interest and dividends receivable	(67) -
Accounts payable	36,395	7,457
Accrued directors' fees	15,000	-
Interest payable	(14,670) 13,090
Accrued payroll	40,369	-
Net cash used in operating activities	(1,270,974) (32,170)
Cash flows from financing activities:		
Proceeds from issuance of common stock	10,165,000	-
Payment on notes payable related party	(95) 25,000
Net cash provided by financing activities	10,164,905	25,000
Net increase (decrease) in cash	8,893,931	(7,170)
Cash, beginning of the period	603,621	22,817
Cash, end of the period	\$ 9,497,552	\$ 15,647

Non-cash financing activities:

Accrued interest converted into note payable	\$ -	\$ 12,820
Conversion of subscription payable to common stock	\$ 500,000	\$ -

See accompanying notes to financial statements.

Mill City Ventures III, Ltd.

(formerly Poker Magic, Inc.)

Financial Highlights

As a Business
Development Company
Six Months Ended
June 30, 2013

Per Share Data

Net asset value at beginning of the period	\$ 0.04	
Net investment loss	(0.03)
Net realized and unrealized gains	0.03	
Net increase in net assets as a result of private offering	0.84	
Net asset value at end of period	\$ 0.88	

Ratio / Supplemental Data

Per share market value at end of period	\$ 0.10	
Shares outstanding at end of period	12,169,422	
Average weighted shares outstanding for period	8,237,737	
Net assets at end of period	\$ 10,703,920	
Average net assets ⁽¹⁾	\$ 6,778,832	
Portfolio turnover rate ⁽²⁾	2.69	%
Ratio of operating expenses to average net assets ⁽²⁾	(10.20)%
Ratio of net investment loss to average net assets ⁽²⁾	(9.90)%
Ratio of realized gains to average net assets ⁽²⁾	2.31	%

⁽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.

(formerly Poker Magic, Inc.)

Schedule of Investments

As of June 30, 2013

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investments	Shares	Cost	Fair Value	% of Total Assets	FV Level
Non-affiliate Investments								
Southern Plains Resources, Inc. Des Moines, IA	Oil & Gas	3/14/13	Common Stock	400,000	\$420,000	\$620,000	5.8%	3
Combimatrix Corporation Snoquaimie, WA	Medical Diagnostic	5/6/13	6% Series C Convertible					
			Preferred Stock and Warrants ¹	400	400,000	440,252		3
			Common Stock	600	1,833	1,908		1
					401,833	442,160	4.1%	
MAX 4G, Inc. Eden Prairie, MN	Information Technology	6/14/13	Series B Convertible Preferred Stock	300,000	150,000	150,000	1.4%	3
TOTAL INVESTMENTS						\$971,833	\$1,212,160	

¹ Comprised of 81,967 warrants with an exercise price of \$3.77 per share and 81,967 warrants with an exercise price of \$3.55 per share. The fair market value of the common stock warrants has not been separated from the fair market value of the preferred stock.

None of these investments presently meet the criteria for “eligible portfolio companies” due to the fact that the Company has not made significant managerial assistance available to them, as required of such investments under Rule 2(a)48 under the 1940 Act.

Mill City Ventures III, Ltd.

(formerly Poker Magic, Inc.)

Notes to Financial Statements

June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations and basis of presentation

Mill City Ventures III, Ltd. (the “Company”) is a business development company that was incorporated in the State of Minnesota on January 10, 2006 under the name Poker Magic, Inc. Our business from January 10, 2006 (inception) through December 12, 2012 consisted primarily of marketing and licensing a new form of poker-based table game to casinos and on-line gaming facilities in the United States.

On December 13, 2012, we filed a Form N-8A with the SEC, notifying the SEC that we are an internally managed, non-diversified, closed-end investment company under the Investment Company Act of 1940 (the “1940 Act”). On February 7, 2013, we filed Form N-54A, notifying the SEC of our election to become a business development company (“BDC”). Subsequently, on May 13, 2013, we filed Form N-8F to deregister as a registered investment company based upon our prior filing to become a BDC. We are regulated as a BDC and plan to be taxed as a regulated investment company, although we currently have not elected this tax status. As a BDC, we primarily focus on investing in or lending to privately-held and publicly-traded companies and making managerial assistance available to such companies. A BDC may provide shareholders with the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage companies that are privately owned.

Our future revenues will relate to the earnings we receive from our portfolio investments. The Company’s objective is to obtain superior returns from investments in securities and other investment opportunities available to BDCs under the 1940 Act. We intend to invest capital in portfolio companies for purposes of financing acquisitions, recapitalizations, buyouts, organic growth and working capital. Buyouts generally include transactions that involve the acquisition of a controlling interest in an entity, either by management or other investors. Organic growth refers to growth through the internal operations of the company, through investments in marketing initiatives, capital expenditures or other internal growth initiatives, rather than growth by means of an acquisition. We plan to identify potential investments through multiple sources, including private equity sponsors, investment bankers, brokers, fundless sponsors, our Board of Directors, and owners and operators of businesses. We will base our investment decisions on our analyses of potential growth prospects for business operations and asset valuations. Subject to

applicable BDC regulations set forth in the 1940 Act, we plan to invest in private companies, small capitalization companies, notes and other forms of debt, investment contracts, and other investments commonly referred to as securities.

On January 17, 2013, the Company amended and restated its Articles of Incorporation. The amendment and restatement included a change in the Company's name from "Poker Magic, Inc." to "Mill City Ventures III, Ltd."

Interim financial information

The balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 or any other period. The accompanying financial statements and related notes should be read in conjunction with the audited Financial Statements of the Company, and notes thereto, contained in our Annual Report on Form 10-K for the year ended December 31, 2012. The financial information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the results of the interim periods presented in order to make the financial statements not misleading.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management and our independent board members to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Cash Deposits

The Company maintains its cash balances in financial institutions and with regulated financial investment brokers. Cash on deposit in excess of FDIC and similar coverage is subject to the usual banking risk of funds in excess of those limits.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash, receivable from sale of investment, interest and dividend receivable, prepaid expenses, accounts payable and notes payable approximate fair value due to their relatively short maturities.

In the normal course of business, the Company may utilize derivative financial instruments (principally options) in connection with its proprietary trading activities. The Company records its derivative activities at fair value. Gains and losses from derivative financial instruments are included in net gain (loss) on investments in the statement of operations.

Investment Valuation

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by our board of directors, based on, among other things, the input of our executive management, audit committee and independent third-party valuation expert that may be engaged by management to assist in the valuation of our portfolio investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our inves