Mill City Ventures III, Ltd
Form N-2
April 01, 2013

As filed with the Securities and Exchange Commission on April 1, 2013

1940 Act File No. 811-22778

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

(Check Appropriate Box or Boxes)

x **REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**
¨ Amendment No ___

MILL CITY VENTURES III, LTD.

(*Exact Name of Registrant as Specified in Charter*)

130 West Lake Street, Suite 300

Wayzata, Minnesota 55391

(952) 473-3442

(*Address and Telephone Number of Principal Executive Officers*)

Douglas M. Polinsky

Chief Executive Officer

130 West Lake Street, Suite 300

Wayzata, Minnesota 55391

(*Name and Address of Agent for Service*)

Copies to:

Paul D. Chestovich

Maslon Edelman Borman & Brand, LLP

3300 Wells Fargo Center

90 South Seventh Street

Minneapolis, Minnesota 55402

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. ¨

It is proposed that this filing will become effective (check appropriate box):

¨ When declared effective pursuant to Section 8(c).

This Registration Statement has been filed by Registrant pursuant to Section 8(b) of the Investment Company Act of 1940, as amended. Registrant's securities are not being registered under the Securities Act of 1933, as amended, on this Registration Statement.

Cross Reference Sheet

PART A – INFORMATION REQUIRED IN A PROSPECTUS

Item Number	Description	Location
Item 1.	Outside Front Cover	Not Applicable
Item 2.	Cover Pages; Other Offering Information	Not Applicable
Item 3.	Fee Table and Synopsis	Not Applicable
Item 4.	Financial Highlights	Not Applicable
Item 5.	Plan of Distribution	Not Applicable
Item 6.	Selling Shareholders	Not Applicable
Item 7.	Use of Proceeds	Not Applicable
Item 8.	General Description of the Registrant	Business; Risk Factors; Price Range of Common Stock;
Item 9.	Management	Management; Custodian, Transfer and Dividend Paying Agent and Registrar; Control Persons and Principal Shareholders; and Brokerage Allocation and Other Practices
Item 10.	Capital Stock, Long-Term Debt and Other Securities	Description of our Capital Stock; Dividends; Distribution Reinvestment Plan; and Material U.S. Federal Income Tax Considerations
Item 11.	Defaults and Arrears on Senior Securities	Not Applicable
Item 12.	Legal Proceedings	Not Applicable
Item 13.	Table of Contents of the Statement of Additional Information	Not Applicable

*PART B – INFORMATION REQUIRED IN A STATEMENT OF ADDITIONAL INFORMATION **

Item Number	Description	Location
Item 14.	Cover Page	Not Applicable
Item 15.	Table of Contents	Not Applicable
Item 16.	General Information and History	Business
Item 17.	Investment Objective and Policies	Business; Risk Factors; Material U.S. Federal Income Tax Considerations; and BDC Regulation
Item 18.	Management	Management
Item 19.	Control Persons and Principal Holders of Securities	Control Persons and Principal Shareholders
Item 20.		

	Investment Advisory and Other Services	Custodian, Transfer and Dividend Paying Agent and Registrar; and Independent Registered Public Accounting Firm
Item 21.	Portfolio Managers	Not Applicable
Item 22.	Brokerage Allocation and Other Practices	Brokerage Allocation and Other Practices
Item 23.	Tax Status	Dividends; Material U.S. Federal Income Tax Considerations
Item 24.	Financial Statements	Financial Statements

* All applicable information required to be set forth in Part B “Statement of Additional Information” is included in the prospectus. Accordingly, no Statement of Additional Information is filed as part of this Registration Statement.

PART C – OTHER INFORMATION

Information required to be included in Part C is set forth under the appropriate item, so numbered, in Part C of this Registration Statement.

Preliminary Prospectus

Subject to Completion

MILL CITY VENTURES III, LTD.

April 1, 2013

We are an internally managed, closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). We are incorporated under the laws of the State of Minnesota. Prior to our election to be regulated as a BDC under the 1940 Act, we operated as Poker Magic, Inc., a development-stage public reporting company, the business of which consisted primarily of marketing and licensing a form of poker-based game to casinos and on-line gaming facilities in the United States.

We are not registering the offer or sale of any of our securities under the Securities Act of 1933 pursuant to this prospectus or the registration statement of which this prospectus is a part. Instead, we are filing this prospectus pursuant to Section 8(b) of the 1940 Act to provide certain information about our planned operations as a BDC. Since we are not registering the offer or sale of any securities under the Securities Act of 1933, certain information ordinarily included in a prospectus filed as part of a registration statement on SEC Form N-2 is not applicable, as indicated on the foregoing Cross Reference Sheet.

Our common stock is presently listed for trading on the OTC Bulletin Board under the symbol "MCVT."

This prospectus contains important information about us that you should know before investing in our common stock. Please read it before making an investment decision and keep it for future reference. As a BDC, we are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may obtain this information free of charge by writing to Mill City Ventures III, Ltd., 130 West Lake Street, Suite 300, Wayzata, Minnesota 55391, by calling us at (952) 473-3442, or by visiting our website at *http://www.millcityventures3.com*. Information contained in our website is not incorporated by reference into this prospectus, and you should not

consider that information to be part of this prospectus. You may also obtain information about us from the SEC's website (*http://www.sec.gov*).

Neither the SEC nor any state securities commission has determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, this may increase the risk to purchasers of our common stock that the full value of their investment may not be recovered. Investing in our common stock involves significant risks. See "*Risk Factors*," beginning on page 12.

The date of this prospectus and the accompanying Statement of Additional Information is April 1, 2013.

You should rely only on the information contained in this prospectus. We have not authorized any underwriter, dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it.

This prospectus is not an offer to sell, or a solicitation of an offer to buy, any shares of our common stock. This prospectus is being filed with the SEC for purposes of compliance with Section 8(b) of the Investment Company Act of 1940, and we are not registering the offer or sale of any shares of our common stock in this prospectus or related registration statement under the Securities Act of 1933.

The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any common stock imply that the information in this prospectus is accurate as of any later date or that the affairs of Mill City Ventures III, Ltd. have not changed since the date hereof.

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PRECAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The matters discussed in this prospectus that are forward-looking statements are based on the current expectations of the management of our company, Mill City Ventures III, Ltd. These expectations involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “con negative of these terms or other similar words. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt-to-asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved.

Some of the forward-looking statements contained in this prospectus include statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment;
- our ability to operate as a business development company and to be taxed as a regulated investment company;

- the adequacy of our cash resources and working capital; and

- the timing of cash flows, if any, from the operations of our portfolio companies.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus, please see the discussion under the "*Risk Factors*" section of this prospectus. You should not place undue reliance on our forward-looking statements.

The forward-looking statements made in this prospectus relate only to events as of the date of this prospectus. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus.

Business

General

Mill City Ventures III, Ltd. is a publicly traded Minnesota corporation formed in January 2006. Throughout this prospectus, we refer to Mill City Ventures III, Ltd. as “we,” “us,” “the Company” or simply as “Mill City.”

On December 13, 2012, we filed a Form N-8A with the SEC, notifying the SEC of our intent to register as 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 a Form N-54A with the SEC, notifying the SEC of our election to be treated as a business development company (“BDC”) under the 1940 Act. A BDC is a unique kind of investment company primarily focused on investing in or lending to private companies, or privately issued securities of small-cap public companies, and making managerial assistance available to such companies. A BDC provides shareholders with the ability to retain the liquidity of publicly traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage companies that are typically, but not always, privately owned.

Our investment objective is to obtain superior returns from investments in securities and other investment opportunities eligible for BDCs under the 1940 Act. We intend to invest capital in portfolio companies in order to finance acquisitions, recapitalizations, buyouts, organic growth and to provide working capital. Buyouts generally include transactions that involve the acquisition of a controlling interest in an entity, either by us, management or other investors. Organic growth refers to growth through the internal operations of the portfolio 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 and source new potential investments through multiple channels, including private equity sponsors, investment bankers, brokers, other business contacts and owners and operators of businesses. We expect to base our investment decisions on analyses of potential portfolio companies’ business operations and asset valuations using due-diligence methodologies, financial modeling and data-management processes designed to help us assess risk, establish appropriate pricing for our investments, and maximize our return on investment. Subject to 1940 Act regulations applicable to BDCs, we plan to invest in stocks, notes and other forms of debt, investment contracts and other investments commonly referred to as “securities” that are issued by private companies and small-cap public companies. Nevertheless, there is no guarantee that we will be able to achieve our investment objectives. Subject to the 1940 Act, our objectives and our investments focuses and policies may be changed without a vote of the holders of our voting securities.

As a BDC, we are required to invest at least 70% of our total assets in “qualifying assets,” which, generally, are securities of private companies or securities of public companies whose securities are not eligible for purchase on margin (which includes many small-cap public stocks that are quoted on either the OTC Bulletin Board or the OTC Markets (formerly referred to as the “pink sheets”). We must also generally offer to provide significant managerial assistance to these portfolio companies. Qualifying assets may also include cash, cash equivalents, U.S. Government

securities or high-quality debt investments maturing in one year or less from the date of investment. We may invest a portion of the remaining 30% of our total assets in debt or equity securities that are not “qualifying assets”—e.g., securities issued by companies whose common stock is traded on an exchange such as the AMEX, NASDAQ markets or the NYSE. Subject to compliance with applicable legal requirements, including after all necessary registrations (or exemptions from registration) with the U.S. Commodity Futures Trading Commission have been obtained, we may also use standard hedging techniques such as futures, options and forward contracts in order to hedge our exposure to fluctuations in interest rates.

We are in the process of researching and analyzing potential portfolio companies. Each investment will be conditioned upon the satisfactory completion of our due-diligence investigation of each company, agreement with the investment terms, structure and financial covenants, the execution and delivery of final binding agreements in form satisfactory to us, and the receipt of any necessary consents.

At this time, we have investments in portfolio companies known as Southern Plains Resources, Inc. (“Southern Plains”) and Great Plains Sand, LLC (“Great Plains”).

Southern Plains is located at 510 East Locust Street, Second Floor, Des Moines, Iowa 50309. On March 6, 2013, we purchased 400,000 shares of Southern Plains’ common stock, representing 1.45% of its outstanding capital stock, for a purchase price of $420,000. Southern Plains is engaged in the business of acquiring acreage in prospective natural resource lands across the Rocky Mountain region and Williston Basin in the United States, with a primary focus on crude oil, acting as a non-operating participant in oil and gas exploration and development.

Great Plains is located at 15870 Johnson Memorial Drive, Jordan, Minnesota 55352. On March 1, 2013, we entered into a subscription agreement with Great Plains Sand, LLC for the purchase of 1 Class A Membership Unit for $105,000, representing 0.5% of its outstanding Class A Membership Units. Great Plains mines, processes and distributes frac sand in Jordan, Minnesota.

As an internally managed company, we will not use the services of any investment adviser. Instead, our executive management, overseen and supervised by our Board of Directors, will manage our day-to-day operations and our investment processes and decisions. From time to time, we may utilize the services of outside advisers and consultants to implement our investment objectives, as determined in the discretion of Board of Directors and permitted under the 1940 Act. See “*Management*” for a discussion of our management arrangements.

Complementing Private Equity and Venture Capital Funds

We believe that our investment approach complements other sources of capital available to our primary target companies. For example, although we may compete with private equity and venture capital funds as a source of capital for such businesses, those types of investors typically invest solely in equity securities. We believe that the flexibility of our proposed investments, including investments in debt securities, will be viewed favorably by such companies as an attractive alternative source of capital. In sum, the prospect of obtaining additional capital without incurring substantial incremental equity dilution should make us attractive to owner-managers as a prospective source of capital compared to private equity and venture capital funds.

In addition, in many cases, we expect that private equity and venture capital funds will welcome an investment by us in their portfolio companies. After making an initial investment in a portfolio company, these funds often seek to stabilize or reduce their financial exposure in such companies. We may then provide non-equity capital that we believe reduces or stabilizes such exposure. As such, we will provide target companies and their financial sponsors with an opportunity to diversify the target company’s capital sources. In addition to enabling additional growth, this should facilitate access to other alternative sources of capital in the future.

Competitive Advantages

We believe that we are well positioned to secure appropriate investments in target companies for the following reasons:

Management Expertise. We believe that our management's strong combination of experience and contacts in the investment sector, including the experience and contacts of non-management members of our Board of Directors, should attract suitable prospective portfolio companies. Since 1994, Douglas M. Polinsky, our Chief Executive Officer, has been the Chief Executive Officer of Great North Capital Consultants, Inc., a financial advisory company which he founded. Great North Capital Consultants advises corporate clients on matters regarding corporate and governance structures, public company acquisitions of private companies and other transaction-related matters, and also makes direct investments into public and private companies. Our Chief Financial Officer, Joseph A. Geraci, II, has been managing member of Isles Capital, LLC, an advisory and consulting firm that assists small businesses, both public and private, in business development. Mr. Geraci also managed Mill City Advisors, LLC, a Minnesota limited liability company that serves as the general partner of Mill City Ventures II, LP, a Minnesota limited partnership investment fund that previously invested directly into both private and public companies. Mr. Geraci previously served as a stockbroker and Vice President of Oak Ridge Financial Services, Inc. from June 2000 to December 2004. While at Oak Ridge Financial Services, Mr. Geraci's business was focused on structuring and negotiating debt and equity private placements with both private and publicly held companies. We believe that our management team's extensive experience in researching, analyzing, advising and investing in private and publicly held companies will afford us a relative competitive advantage in structuring investments in potential portfolio companies. See "*Management*" for a more detailed description of our management team.

Flexible Investment Options. We will have significant relative flexibility in selecting and structuring our investments. We will not be subject to many of the regulatory limitations that govern traditional lending institutions. Also, we will have fairly broad latitude as to the term and nature of our investments. We intend to calculate rates of return on invested capital based on a combination of up-front commitment fees, current and deferred interest rates and residual values, which may take the form of common stock, warrants, equity appreciation rights or future contract payments. We believe that this flexible approach to structuring investments will facilitate positive, long-term relationships with our portfolio companies and enable us to become a preferred source of capital to them after our initial investments.

Longer Investment Horizons. We will not be subject to periodic capital-return requirements that are typical for most private equity and venture capital funds. These requirements typically require that such funds return to investors the initial capital investment after a certain period of time, together with any capital gains on such capital investment. These provisions often force such funds to seek the return of their investments in portfolio companies through mergers, public equity offerings or other liquidity events more quickly than they otherwise might, which can result in a lower overall return to investors and adversely affect the ultimate viability of the affected portfolio companies. Because we may invest in the same portfolio companies as these funds, we are subject to these risks if these funds demand an early return on their investments in the portfolio companies. We believe that our flexibility to take a longer-term view should help us to maximize returns on our invested capital while still meeting the needs of our portfolio companies.

Investing Across Industries. We expect to seek to obtain and maintain a portfolio of investments that is appropriately balanced among various companies, industries, geographic regions and end markets. We believe that maintaining a balanced portfolio will mitigate the potential effects of negative economic events for particular companies, regions and industries.

- *Established Investment Network*. We believe that our management and our directors have significant contacts and sources from which to generate investment opportunities. These contacts and sources include public and private

companies, private equity and venture capital funds, investment bankers, attorneys and commercial bankers. We intend to utilize these relationships and reputations to identify investment opportunities. In addition, we believe that our management will provide substantial management-advisory capabilities that will add value to our portfolio companies.

Investment Process

Prospective Portfolio Company Characteristics

We have identified several criteria that we believe will prove important in achieving our investment objectives with respect to target portfolio companies. These criteria will provide general guidelines for our investment decisions. Nevertheless, not all of these criteria will be met by each prospective portfolio company in which we choose to invest.

- *Experienced Management*. We will seek portfolio companies that have an experienced and knowledgeable management team or Board of Directors. We will also seek portfolio companies that have in place proper incentives to induce management to succeed and to act in concert with our interests as investors, including having significant equity interests.

- *Existing Significant Financial or Strategic Sponsor*. We may invest in target companies in which established private equity or venture capital funds or other financial or strategic sponsors have previously invested and make an ongoing contribution to the management of the business. We believe that having an established financial or strategic sponsor that has a meaningful commitment to the business diversifies the capital sources of the target portfolio company, making it more likely to succeed in the longer term.

- *Competitive Position*. We will seek to invest in portfolio companies that have developed, or appear poised to develop, a strong competitive position within their respective sector or niche.

- *Cash Flow Companies*. We will seek to invest in portfolio companies that are profitable or nearly profitable on an operating cash flow basis. Typically, we would not expect to invest in start-up companies without any revenues.

- *Future Growth.* We will seek out target portfolio companies that demonstrate an ability to increase its revenues in addition to its operating cash flow over time. The anticipated growth rate of a prospective target company will be a key factor in determining the value that we ascribe to any warrants or other equity securities that we may acquire in connection with an investment.

- *Exit Strategy.* Prior to making an investment, we will analyze the potential for that company to increase the liquidity of its equity securities through a future event that would enable us to realize appreciation, if any, in the value of our equity interest. Liquidity events may include an initial public offering, a private sale of our equity interest to a third party, a merger or an acquisition of the company or a purchase of our equity interest by the company or one of its shareholders.

- *Asset Liquidation Value.* Although we do not intend to operate as an asset-based lender, the prospective liquidation value of the assets, if any, collateralizing any debt securities we hold will be an important factor in our credit analysis of potential portfolio companies. In assessing creditworthiness and asset liquidation value, we expect to consider both tangible assets (such as accounts receivable, inventory and equipment) and intangible assets (such as intellectual property, customer lists, networks and databases).

Due Diligence

If we believe a target portfolio company generally meets the characteristics described above or if we believe that certain of the most important characteristics for that particular target portfolio company or the industry in which it operates are met, we may perform initial due diligence on such company. Our due-diligence examination is likely to

include assessments, market analysis, competitive analysis, evaluation of management, risk analysis and transaction size, pricing and structure analysis. The criteria delineated below provide general parameters for our investment decisions, although not all of such criteria will be followed in each instance. Upon successful completion of this preliminary evaluation, we will decide whether to move forward towards negotiating a letter of intent and, thereafter, definitive documentation for our investment.

Management Team and Financial Sponsors

- Interview with management and significant shareholders, including any financial or strategic sponsor;

- Review financing history;
- Review of management's record of product development and marketing, mergers and acquisitions, alliances, collaborations, research and development, outsourcing and other strategic activities;
- Assess key competition; and
- Review exit strategies.

Financial Condition

- Evaluate future financing needs and plans;
- Analyze financial performance;
- Develop pro forma financial projections; and
- Review assets and liabilities, including contingent liabilities, if any, and legal and regulatory risks.

Technology Assessment

- Evaluate intellectual property;
- Review research and development milestones;
- Analyze core technology under development;
- Assess collaborations and other technology validations; and
- Assess market and growth potential.

Upon completion of these analyses, we may conduct on-site visits with the portfolio company's senior management team.

Investments

We expect to engage in various investment strategies in order to achieve our overall investment objectives. The particular type of investment strategy we select will depend upon, among other things, market opportunities, the skills and experience of our management and Board of Directors and our overall portfolio composition. Our strategies generally seek to provide (i) in the case of debt, current cash yields and favorable loan-to-value ratios, or other financial guarantees or credit enhancements with respect to loan collateral, and (ii) in the case of equity, favorable long-term growth and income potential together with viable exit or liquidity strategies.

Debt Investments

We intend to tailor the terms of each debt investment we make to the facts and circumstances of the transaction and prospective portfolio company, negotiating a structure that seeks to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan. Our expected primary source of return on debt investments is the monthly cash interest we collect on those investments. The particular types of debt investments we may make include, but are not limited to, the following:

- First Lien Loans
- Second Lien Loans
- Unsecured Loans

Equity Investments

Like debt investments, we intend to tailor the terms of each equity investment we make to the facts and circumstances of the transaction and prospective portfolio company, negotiating a structure that seeks to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan. As an equity holder, the rights we will generally seek to protect or obtain include minority rights, event-driven rights to "put" or sell our equity back to the portfolio company or certain affiliates or sponsors, and registration rights in connection such as "demand" or "piggyback" registration rights.. We may invest in common stock and preferred stock, and may receive warrants in connection with our investments. When we make a debt investment, we may also be granted equity participation in the form of warrants to purchase common equity in the company in the same class of security that the owners or equity sponsors receive upon funding.

Ongoing Relationships with Portfolio Companies

Monitoring

We expect to continuously monitor our portfolio companies in order to determine whether they are meeting our financing criteria and their respective business plans. We may decline to make additional investments in portfolio companies that do not continue to meet our financing criteria or that fail to successfully execute their business plans. Of course, we may choose to make additional investments in portfolio companies that do not do so, but that we believe will nevertheless perform well in the future.

We expect to monitor the financial trends of each portfolio company and their respective industries to assess the appropriate course of action for each company and to evaluate our overall portfolio quality. In this regard, our management team will monitor the status and performance of each individual company on at least a quarterly and, in some cases, a monthly basis.

We have several methods of evaluating and monitoring the performance and fair value of our debt and equity positions, including but not limited to the following:

- Consider the amortized value of our debt securities;

- Assess the business development success, including product development, financings, profitability and the portfolio company's overall adherence to its business plan;

- Contact portfolio company management regularly to discuss financial position, requirements and accomplishments;

- Interview portfolio company management regularly and, if appropriate, other financial or strategic sponsors of that portfolio company;

- Attend and participate in board meetings of portfolio companies; and

- Review monthly and quarterly financial statements and financial projections of our portfolio companies.

Managerial Assistance

As a BDC, we offer, and in many cases may provide, significant managerial assistance to our portfolio companies. We expect that this assistance will typically involve monitoring the operations of our portfolio companies, participating in their board and management meetings, consulting with and advising their officers and providing other organizational, financial, strategic and transactional guidance.

Competition

Our primary competitors include private equity and venture capital funds, other equity and non-equity based investment funds (including other business development companies), investment banks and other sources of financing, including traditional financial services companies such as commercial banks and specialty finance companies. Many of these entities have greater financial and managerial resources than us. For additional information concerning the competitive risks we face, see "*Risk Factors—Risks Related To Our Business—We will operate in a highly competitive market for portfolio investment opportunities*."

Regulation

As a BDC, we are regulated by the 1940 Act. A BDC must be organized in the United States for the purpose of investing in or lending to primarily private companies, or certain small-cap public companies, and, with limited exceptions, making managerial assistance available to them. A BDC may use capital provided by public shareholders and from other sources to make long-term, private investments in businesses. A BDC provides shareholders the ability to retain the liquidity of a publicly traded stock while sharing in the possible benefits, if any, of investing in primarily privately owned or small-cap public companies.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC unless authorized by vote of a majority of the outstanding voting securities, as required by the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (a) 67% or more of such company's voting securities present at a meeting if more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (b) more than 50% of the outstanding voting securities of such company. We do not anticipate any substantial change in the nature of our business.

As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. A majority of our directors must be persons who are not "interested persons," as that term is defined in the

1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the BDC. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to us or our shareholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

As a BDC, we are generally required to meet an asset-coverage ratio, defined under the 1940 Act as the ratio of our gross assets (less all liabilities and indebtedness not represented by senior securities) to our outstanding senior securities, of at least 200% after each issuance of senior securities. We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, prior approval by the SEC.

As a BDC, we are generally not permitted to invest in any portfolio company in which our investment adviser or any of its affiliates currently have an investment or to make any co-investments with our investment adviser or its affiliates without an exemptive order from the SEC, subject to certain exceptions.

We are generally not able to sell our common stock at a price below net asset value per share. See "*Risk Factors—Risks Related to our Business and Structure—Regulations governing our operation as a business development company affect our ability to raise additional capital . . . .*" We may, however, sell our common stock at a price below net asset value per share (i) in connection with a rights offering to our existing shareholders, (ii) with the consent of shareholders holding a majority of our common stock, or (iii) under such other circumstances as the SEC may permit. For example, we may sell our common stock at a price below the then-current net asset value of our common stock if our Board of Directors determines that such sale is in our best interests and the best interests of our shareholders, and our shareholders approve our policy and practice of making such sales. In addition, we may generally issue new shares of our common stock at a price below net asset value in rights offerings to our existing shareholders, in payment of dividends and in certain other limited circumstances. No such offerings have occurred as of the date of this filing.

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as "qualifying assets," unless, at the time the acquisition is made, qualifying assets represent at least 70% of the business development company's gross assets. The principal categories of qualifying assets relevant to our proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an "eligible portfolio company," (as defined in the 1940 Act) or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. The 1940 Act defines an "eligible portfolio company" as any issuer which: (a) is organized under the laws of, and has its principal place of business in, the United States; (b) is not an investment company (other than a wholly owned small business investment company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and (c) satisfies any one of the following three criteria:

- (i) does not have any class of securities that is traded on a national securities exchange or (ii) has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than $250 million;

- is controlled by us or a group of companies including us (with "control" being presumed to exist where we or our group holds at least 25% of the voting securities of the issuer) and we have an affiliated person who is a director of the eligible portfolio company; or

- is a small and solvent company having gross assets of not more than $4.0 million and capital and surplus of not less than $2.0 million.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, from any other person or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the business development company, 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. We will offer to provide managerial assistance to our portfolio companies.

In addition to the foregoing description of “qualifying assets,” (i) certain types of follow-on investments in issuers that no longer satisfy the definition of “eligible portfolio company” may nonetheless be “qualifying assets” as well as (ii) office furniture, equipment, real estate interests and leasehold improvements (as described in Sections 55(a)(1)(B) and 55(a)(7), respectively, of the 1940 Act).

We may be examined by the SEC for compliance with the 1940 Act. For more information about the regulation affecting us as a business development company, see "*BDC Regulation*" below.

Employees

We currently have no employees other than our Chief Executive Officer and Chief Financial Officer. As we secure investments in portfolio companies, we expect to hire individuals, as needed, or may engage independent contractors to provide needed services. The costs for these employees and contractors will be paid as part of our operating expenses. Currently, our day-to-day investment operations will be managed and executed by our Chief Executive Officer and Chief Financial Officer. See "*Management*" for details about our compensation arrangements with our management.

Business Properties

Our corporate headquarters is located at 130 West Lake Street, Suite 300, Wayzata, Minnesota 55391. We believe that our office facilities are suitable and adequate for our business as it is presently conducted.

Prior Operations

On February 7, 2013, we notified the SEC of our election to become a business development company under the 1940 Act. Prior to that, we had notified the SEC on December 13, 2012 of our election to register as an investment company under the 1940 Act. Before our 1940 Act elections, we operated as Poker Magic, Inc., a development-stage company, the business of which consisted primarily of marketing and licensing a form of poker-based game to casinos and on-line gaming facilities in the United States. The change in our business model resulting from our election to become a BDC requires us to invest at least 70% of our total assets in "qualifying assets" under the 1940 Act (see "*BDC Regulation—Qualifying Assets*" below). Presently, we intend to sell those of our assets relating to our former business, chiefly consisting of intellectual-property rights, that do not constitute "qualifying assets." We do not expect that any sale transaction, if consummated, would result in us receiving any material proceeds.

Securities Exchange Act Reports

We maintain a website at www.millcityventures3.com. The information on our website is not incorporated by reference into this prospectus. We will make available on or through our website certain reports and amendments to those reports that we file with or furnish to the SEC in accordance with the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

risk factors

Investing in our common stock involves a number of significant risks. In addition to the other information contained in this prospectus, you should consider carefully the following information before making an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We recently changed our business, and our management team has no experience managing a BDC.

On December 13, 2012, we filed a Form N-8A with the SEC, notifying the SEC of our intent to register as an internally managed, non-diversified, closed-end investment company under the 1940 Act. On February 7, 2013, we filed a Form N-54A with the SEC, notifying the SEC of our election to be treated as a BDC under the 1940 Act. None of our management or our directors have any specific experience with BDCs, which may affect our ability to successfully manage and grow our business.

The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or small-cap traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less. Our management team's lack of experience in managing a portfolio of assets under such regulatory constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. Furthermore, our failure to comply with the BDC requirements could cause the SEC to bring an enforcement action against us, expose us to private claims, or cause us to lose our status as a BDC.

In connection with our election to be treated as a BDC, we intend to obtain and maintain tax treatment as a regulated investment company, or "RIC," under the Internal Revenue Code of 1986 (the "Code"). To maintain that status, we must meet specified source-of-income and asset-diversification requirements and distribute annually at least 90% of the sum of our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. Failure to meet these requirements would subject us to excise taxes, which would reduce your return on investment. If we do not remain a BDC, we would lose the operational flexibility available to BDCs and may thereupon be unable to operate our business substantially as described in this prospectus and our other reports filed with the SEC.

We have a history of operating losses from our corporation's prior involvement in an operating business, and may not be able to offset from our net income our historical operating losses for income tax purposes.

We have incurred operating losses and negative cash flows from our operations, prior to becoming a BDC, since inception. As of December 31, 2012, our retained deficit was approximately $(1,159,665) and our total shareholders' equity was approximately $63,075. We did not generate revenues during 2012 since revenues from our sole prior customer discontinued as of December 2010. Due to our conversion to a BDC, our auditors have notified us that we likely will not be able to use our historical operating losses to offset any net income of the Company for income tax purposes in the future.

We are dependent upon senior management personnel for our future success. If we are unable to retain our senior management team, our ability to achieve our investment objectives could be significantly compromised.

We will critically depend on our senior management, particularly our Chief Executive Officer, Douglas M. Polinsky, and our Chief Financial Officer, Joseph A. Geraci, II, for the identification, final selection, structuring, closing and monitoring of our investments. These employees have critical experience and relationships that we intend to rely on in the course of implementing our business plan. Thus, our future success and viability as a BDC will depend on the continued service of these persons. The departure of either person could have a material adverse effect on our ability to achieve our investment objectives, which could in turn adversely affect any investment you make in our company.

We will operate in a highly competitive market for portfolio investment opportunities.

We expect that many entities will compete with us to make the types of investments we plan to make in prospective portfolio companies. For example, we expect to compete with private equity firms as well as other BDCs, investment funds, investment banks and other sources of financing, including traditional financial services companies such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than us. For instance, some competitors may have a lower cost of funds and access to funding sources that are not available to us. These resources may enable our competitors to offer terms to potential portfolio companies that we cannot match. With other competitive advantages to appeal to, we may lose prospective portfolio investments if we do not match our competitors' pricing, terms and structure. If, on the other hand, we do match our competitors' pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Importantly, some of our potential competitors have a great deal of experience operating under the regulatory restrictions that the 1940 Act will impose on us as a BDC, and many of our potential competitors are not subject to any such regulatory restrictions. If we are not able to compete effectively, our business and financial condition and results of operations, together with any investment you make in our company, will be adversely affected.

We may be unable to make distributions, which failure could materially and adversely affect your investment.

Although we intend to make periodic distributions to our shareholders, we may be unable to achieve operating results that will allow us to make such distributions. For example, the BDC asset-coverage requirements may limit our ability to make distributions. In addition, restrictions and provisions in any future credit facilities that we may obtain could limit our ability to make distributions. If we fail to meet certain annual income-distribution requirements, we could lose our RIC status and be subject to corporate-level income tax. Any failure to make distributions or any loss of our RIC status could materially and adversely affect any investment you make in our company.

Any unrealized losses we experience may be an indication of future realized losses, which could reduce our income available for distributions.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at the fair value as determined in good faith by our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation on our statement of operations. Any unrealized losses in our portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us (if our investment is in the form of debt), or of its diminishing value (if our investment is in the form of equity). This could result in future realized losses and, ultimately, in reductions of our income available for distribution in future periods.

Many of our portfolio investments will be recorded at fair value as determined in good faith by our Board of Directors. As a result, there may be uncertainty as to the value of our investments.

Our investments are expected to consist primarily of securities issued by privately held companies, the fair value of which is not readily determinable. In addition, we will not be permitted to maintain a general reserve for anticipated loan losses. Instead, we will be required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value. Our Board of Directors will value these securities at fair value as it determines in good faith. Where appropriate, our board may utilize the services of an independent valuation firm to assist in the determination of fair value. Because valuations, and particularly valuations of private investments, are inherently uncertain and may be based on estimates, our fair value determinations may differ materially from those that would be assessed if a liquid market for these securities existed. Our net asset value and the value of our common stock could be adversely affected if the fair value determinations of our investments were materially higher than the values we ultimately realize from them.

If we are unable to source investments effectively, we may be unable to achieve our investment objectives.

Our ability to achieve our investment objectives will depend on our management team's ability to identify, evaluate, finance and invest in suitable companies that meet our investment criteria. Accomplishing this result in a cost-effective manner will largely be a function of our management of the investment process, our ability to provide efficient services and our access to financing sources on acceptable terms. In addition to monitoring the performance of our investments, our management team must offer managerial assistance to our portfolio companies. These demands on their time may distract them, slowing the rate of overall investment. To grow, we expect that we will need to hire, train, supervise and manage new employees and to implement computer and other systems capable of effectively accommodating our growth. Our failure to effectively manage our future growth could materially and adversely affect our business, financial condition and results of operations.

We will be exposed to risks associated with changes in interest rates.

General interest-rate fluctuations may have a substantial and negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in interest spreads on new investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates. Also, an increase in interest rates could make investment in our common stock less attractive if we are unable to increase our dividend rate, which could reduce the value of our common stock.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

As a BDC subject to RIC taxation, we may be required to include in our taxable income certain amounts that we have not yet received in cash. Any of these amounts will increase the amounts we are required to distribute to qualify under the RIC rules. In any such event, we would need to obtain cash from other sources to satisfy our RIC-related distribution requirements. If we are unable to so obtain cash, we may fail to qualify for tax treatment as a RIC, and thus could become subject to a corporate-level income tax on all of our income. Accordingly, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements and avoid a corporate-level income tax.

If we incur additional debt, it could increase the risk of investing in our Company.

We expect, in the future, that we may borrow from, and issue senior debt securities to, banks, insurance companies and other lenders. Lenders will have fixed dollar claims on our assets that are superior to the claims of our shareholders, and we may grant a security interest in our assets in connection with our borrowings. In the case of a liquidation event, those lenders would receive proceeds before our shareholders. In addition, borrowings generally magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage; and any decrease in our revenue would cause

our net income to decline more than it would have had we not borrowed funds, and could negatively affect our ability to make distributions on our common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures.

As a BDC, we will be required to meet an asset-coverage ratio (total assets to total borrowings and other senior securities, including any preferred stock) of at least 200%. If this ratio declines below 200%, we will be unable to incur additional debt and may need to sell a portion of our investments to repay debt when it is otherwise disadvantageous to do so, and we may be unable to make distributions.

Because we intend to distribute substantially all of our income and net realized capital gains to our shareholders, we will likely need additional capital to finance our growth.

To qualify for RIC taxation and avoid payment of excise taxes and minimize or avoid payment of income taxes, we intend to distribute to our shareholders substantially all of our net ordinary income and realized net capital gains except for certain net long-term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our shareholders). As described in "*BDC Regulation—Senior Securities; Coverage Ratio*," as a BDC we will be required to meet a 200% asset-coverage ratio limiting the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may require us to raise additional equity at a time when it may be disadvantageous to do so. While we expect to be able to borrow and issue additional debt and equity securities, debt and equity financing may not be available to us on favorable terms, if at all. In addition, as a BDC, we will generally not be permitted to issue equity securities below net asset value without shareholder approval. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value could decline.

Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or shareholder approval.

Our Board of Directors has the authority from time to time to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without shareholder approval. The effects of any such exercise of authority may adversely affect our business and the value of your investment.

Failure to achieve and maintain effective internal controls could limit our ability to detect and prevent fraud and thereby adversely affect our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. Nevertheless, all internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our most recent evaluation of our internal controls resulted in our conclusion that our disclosure controls and procedures were effective. Our inability to maintain an effective control environment may cause investors to lose confidence in our reported financial information, which could in turn have a material adverse effect on our stock price.

Our officers and directors, together with certain affiliates, possess significant voting power with respect to our common stock, which could limit your influence on corporate matters.

Our officers and directors collectively possess beneficial ownership of 818,433 shares of our common stock, as noted in our Item 12 table, which currently represents approximately 6.7% of our common stock. As a result, our directors and officers, together with other significant shareholders, will have the ability to greatly influence, if not control, our management and affairs through the election and removal of our directors, and all other matters requiring shareholder approval, including the future merger, consolidation or sale of all or substantially all of our assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change-of-control transaction that may otherwise be beneficial to our shareholders. Furthermore, this concentrated control will limit the practical effect of your participation in Company matters, through shareholder votes and otherwise.

Risks Related to our Investments

Our investments will involve significant risks, any which could materially and adversely affect our results of operation, financial condition and the value of any investment in our company. In sum, you could lose the entirety of any investment you make in our company.

We expect to invest primarily in senior secured term loans, mezzanine debt and selected equity investments issued by privately held and small-cap public companies, and may also use short sales and options in connection with our business. A summary of the risks associated with these kinds of investments is presented below.

Senior Secured Loans. When we extend senior secured term loans, we intend to generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, which we expect to help mitigate the risk of default. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions. In some circumstances, our lien could be subordinate to claims of other creditors. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan’s terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

Mezzanine Debt. Any mezzanine debt investments will generally be unsecured and subordinated to senior loans and will generally not receive any cash prior to maturity of the debt. We expect that these common features will result in above-average risk and volatility. To the extent interest payments associated with such debt are deferred, such debt will necessarily be subject to greater fluctuations in value based on changes in interest rates, and such debt could subject us to phantom income.

Equity Investments. We expect to make equity investments. We may also receive equity-linked securities, such as warrants, in connection with any investment we make in senior loans or mezzanine debt. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. Nevertheless, the equity interests we receive may not appreciate in value and may in fact decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Short Sales. We may engage in short selling. In certain circumstances, short sales can substantially increase the impact of adverse price movements in our investment positions. A short sale involves the theoretically unlimited increase in the market price of the security and uncertainty as to the availability of such security for purchase—theoretically an unlimited loss.

Options. We may buy or sell (write) both call options and put options, and may do so on a "covered" or an "uncovered" basis. Any options transactions may be part of a hedging tactic (*i.e.*, offsetting the risk involved in another securities position) or as a form of leverage, in which we have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances under which a particular transaction or position is entered into. When we buy an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of our investment in the option. When we sell (write) an option, the risk can be substantially greater. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. This risk is theoretically unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause us to lose the opportunity for gain on the underlying security—assuming it bought the security for less than the exercise price.

Middle-Market Companies. Investments in middle-market companies also involve a number of additional significant risks, including:

- typically shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

- material dependence on management talents and efforts of a small group of persons;

- less predictable operating results, engaging in rapidly changing businesses with products subject to a substantial risk of obsolescence, and requiring substantial additional capital;

- difficulty accessing the capital markets to meet future capital needs; and

- generally less publicly available information about their operations and financial condition.

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The lack of liquidity in our investments may adversely affect our business.

We may invest in private companies and small-cap public companies. These securities may be subject to legal and other restrictions on resale or otherwise be less liquid than other publicly traded securities. The relative illiquidity of these investments may make it difficult for us to sell these investments when desired. As a result, if we were required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve near-term liquidity in our investments. Our investments may commonly be subject to contractual or legal restrictions on resale or will be otherwise illiquid due to the fact that there is no established trading market for such securities, or such trading market is thinly traded. The relative illiquidity of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

We believe that many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Accordingly, our non-performing assets may increase and the value of our portfolio may decrease during these periods. Adverse economic conditions may also decrease the value of collateral securing our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

Defaults by our portfolio companies could harm our operating results and the return on any investment you make in our company.

A portfolio company’s failure to satisfy financial or operating covenants imposed by us or other debt holders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its secured assets. Such events could trigger cross-defaults under other agreements and jeopardize a portfolio company’s ability to meet its obligations under the debt that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.

We anticipate making both debt and minority equity investments in our portfolio companies. Therefore, we will be subject to the risk that a portfolio company may make business decisions with which we disagree, and may take risks or otherwise act in ways that do not immediately or ultimately serve our interests and that could decrease the value of our portfolio holdings. We are not likely to be in a position to outrightly control any portfolio company and significantly mitigate these risks.

The prepayment of our debt investments could adversely impact our results of operations and reduce our return on equity.

We will be subject to the risk that our portfolio debt investments (and perhaps certain kinds of preferred equity investments) may be repaid prior to maturity or unexpectedly. When and if this occurs, we generally expect to reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt that has been prepaid, and we could experience significant delays in reinvesting these prepaid amounts. Any future investment in a new portfolio company may also be at lower yields than the prepaid debt. As a result, our results of operations could be materially and adversely affected if one or more of our portfolio companies were to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Our portfolio companies may incur debt that ranks equally with or senior to our investments.

In some cases, portfolio companies will have other debt ranking equal or senior to the debt securities in which we invest. By their terms, such debt instruments may provide that holders of such instruments are entitled to receive payment of interest or principal on par with or before us. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt that is senior to our investment will typically be entitled to receive full payment before we receive distributions in respect of our investment, if any. In the case of debt ranking equal to our investment, we would have to share payments on a pro rata basis with other creditors holding such debt upon any insolvency, liquidation, dissolution, reorganization or bankruptcy.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender-liability claims.

Even though we may structure investments as senior loans, if one of our portfolio companies goes bankrupt, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. In addition, we could become subject to lender-liability claims if we become too involved in the borrower's business or exercise control over the borrower.

Investments in equity securities involve a substantial degree of risk.

We intend to frequently purchase common stock and other equity securities. Investments in equity securities involve a number of significant risks, including the risk of dilution as a result of additional issuances of equity later in time. Even investments in preferred securities involve unique risks, such as the risk of deferred distributions, credit risk, illiquidity and limited voting rights. In sum, the equity securities we acquire may fail to appreciate, may decline in value or become worthless or significantly diluted, and our ability to recover our investment will depend on our portfolio company's success.

Risks Related to Operating as a BDC

Our ability to enter into transactions with our affiliates will be restricted.

The 1940 Act prohibits us from participating in certain transactions with certain of our directors, officers and affiliates without the prior approval of our independent directors and, in some cases, the SEC. In this regard, any person owning, directly or indirectly, 5% or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include co-investments in a portfolio company, without prior approval of our independent directors and, in some cases, the SEC. If we acquire more than 25% of the voting securities of another entity, we and our officers and directors will be prohibited from buying or selling any security from or to such entity, or entering into prohibited joint transactions with such entity, absent the prior approval of the SEC.

BDC regulations will affect our ability to raise additional capital.

Our proposed business will likely require substantial capital in the future, especially if we are to grow our portfolio in the future. We expect that our most likely sources of additional capital will be credit facilities, funds obtained by issuing senior securities or other indebtedness, or by issuing additional common shares. Nonetheless, we may be unable to obtain additional capital on favorable terms, if at all. We may issue debt securities or preferred securities, which we refer to collectively as "senior securities," and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. Our ability to pay dividends or issue additional senior securities would be restricted if our asset-coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. In such a case, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

Changes in the laws or regulations governing our business, or in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.

Changes in the laws, regulations or the interpretations thereof that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements, we may have to incur significant compliance expenses or we might have to restrict our operations. If we fail to comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines or criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

If our primary investments are not deemed to be qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

To maintain qualification as a BDC, we cannot acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. If we fail to meet this "qualifying assets test," we could be forced to dispose of certain investments, be precluded from investing in the manner described in this prospectus, or lose our status as a BDC, any of which would have a material adverse effect on our business, financial condition, results of operations and, ultimately, any investment you make in our company. The disposition of such investments may need to occur quickly, which would make it difficult to dispose of such investments on favorable terms. In addition, because these types of investments will generally be illiquid, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

If we are unable to qualify for RIC tax treatment, we will be subject to corporate-level income tax, which will adversely affect our financial condition.

Provided we qualify for tax treatment as a RIC, we can generally avoid corporate-level federal income taxes on income distributed to our shareholders as dividends. We will not qualify for this pass-through tax treatment, and thus will be subject to corporate-level federal income taxes, if we are unable to comply with the source-of-income, diversification and distribution requirements contained in the Code, or if we fail to maintain our registration under the 1940 Act. If we fail to qualify for RIC tax treatment, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to shareholders and the actual amount of our distributions. As such, any such failure would have a material adverse effect on us, the net asset value of our common stock and the total return obtainable from your investment in our common stock.

Risks Related to our Common Stock

Shares of closed-end investment companies frequently trade at a discount to their net asset value.

Shares of closed-end investment companies frequently trade at discounts to their net asset values. This risk is separate and distinct from the risk that our net asset value per share may decline. We cannot predict or control whether our common shares will trade above, at or below our net asset value. In addition, if our common stock trades below its net asset value, the 1940 Act prohibits us from issuing additional common shares at the then-current market price without first obtaining approval from our shareholders and independent directors.

Our Articles of Incorporation grant our Board of Directors the power to designate and issue additional shares of common and preferred stock.

Our authorized capital consists of 250,000,000 shares of capital stock. Pursuant to authority granted by our articles of incorporation, our Board of Directors, without any action by our shareholders, may designate and issue shares in such classes or series (including classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights, subject to the applicable restrictions set forth in the 1940 Act. The rights of holders of other classes or series of stock that may be issued could be superior to the rights of holders of our common shares. The designation and issuance of shares of capital stock having preferential rights could adversely affect other rights appurtenant to shares of our common stock. Furthermore, any issuances of additional stock—either common or preferred—will dilute the percentage of ownership interest of then-current holders of our capital stock and may dilute our book value per share.

Our stock is thinly traded, which may make it difficult to sell shares of our common stock.

Our common stock is thinly traded on the OTC bulletin board and we expect that our common stock will generally remain thinly traded for the foreseeable future. A low trading volume will generally make it difficult for our shareholders to sell their shares as and when they choose. Furthermore, low trading volumes are generally understood to depress market prices. As a result, our shareholders may not always be able to resell shares of our common stock publicly at the time and prices that they feel are fair or appropriate.

Our common stock qualifies as a "penny stock," which may make it difficult to sell shares of our common stock.

Our common stock is categorized as a "penny stock" subject to the requirements of Rule 15g-9 under the Securities and Exchange Act of 1934. Under this rule, broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. Under applicable regulations, our common stock will generally remain a "penny stock" until and for such time as its per-share price is $5.00 or more (as determined in accordance with SEC regulations), or until we meet certain net asset or revenue thresholds. These thresholds include the possession of net tangible assets (i.e., total assets less intangible assets and liabilities) in excess of $2,000,000 in the event we have been operating for at least three years or $5,000,000 in the event we have been operating for fewer than three years, and the recognition of average revenues equal to at least $6,000,000 for each of the last three years. We do not anticipate satisfying both of these thresholds in the foreseeable future.

The penny-stock rules severely limit the liquidity of securities in the secondary market, and many brokers choose not to participate in penny-stock transactions. As a result, there is generally less trading in penny stocks. If you become a holder of our common stock, you may not always be able to resell shares of our common stock in public broker's

transaction, if at all, at the times and prices that you feel are fair or appropriate.

Management

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors currently consists of five directors, three of whom are not "interested persons" of or with respect to the Company, as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our "independent directors." Our Board of Directors elects our officers, who will serve at the discretion of the Board of Directors and subject to the terms and conditions of any related employment agreements.

Directors and Executive Officers

Our directors and executive officers and their positions are set forth below. Except as provided below, the address for each director and executive officer is c/o Mill City Ventures III, Ltd., 130 West Lake Street, Suite 300, Wayzata, Minnesota 55391.

Name and Age	Position(s) Held with Registrant	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
Independent Directors					
Joseph Hammer, 34	Director	March 2013 through present	See biography below	None	None
Christopher Larson, 41	Director	March 2013 through present	See biography below	None	None
Laurence S. Zipkin, 71	Director	March 2013 through present	See biography below	None	GWG Holdings, Inc.
Executive Officers (1)					
				None	None

Douglas M. Polinsky, 53	Chairman, Chief Executive Officer and President	January 2006 through present	See biography below		
Joseph A. Geraci, II, 43	Director and Chief Financial Officer	January 2006 through present	See biography below	None	None

(1) These persons are interested persons, as defined in Section 2(a)(19) of the 1940 Act, because they are officers of the Company.

Independent Directors

Joseph D. Hammer has been employed since 2002 by LH Financial Services, a New York City based private equity firm.

Christopher Larson co-founded and acted as Chief Financial Officer of Cash Systems, Inc., a NASDAQ traded (symbol: CKNN) financial services company involved in the casino gaming industry, from 1999 to 2005. Mr. Larson also served on the Board of Directors of Cash Systems from 2001 to 2006 and on the Board of Directors of Western Capital Resources, Inc. from 2008 to 2009. From 2005 to 2011, Mr. Larson severed as President of National Cash & Credit a private financial services company. Chris is a certified public accountant.

Laurence S. Zipkin is nationally recognized for his expertise in the gaming industry, restaurants, and emerging small growth companies. From 1996 to 2006, Mr. Zipkin owned Oakridge Securities, Inc. where, as an investment banker, he successfully raised capital for various early growth-stage companies and advising clients with regard to private placements, initial public offerings, mergers, debt offerings, bridge and bank financings, developing business plans and evaluating cash needs and resources. He has extensive experience in the merger and acquisition field and has represented companies on both the buy and sell side. Since 2006, Mr. Zipkin has been self-employed, engaging in various consulting activities, owning and operating two restaurant properties, and purchasing distressed real estate. Mr. Zipkin is a licensed insurance agent for both life and health insurance. Mr. Zipkin attended the University of Pennsylvania Wharton School of Finance. In June 2011, Mr. Zipkin joined the Board of Directors of GWG Holdings, Inc., a public reporting company engaged in the life settlement business.

Interested Directors and Officers

Douglas M. Polinsky co-founded the Company in January 2006 and since that time has been the Chairman, Chief Executive Officer and President of the Company. Since 1994, Mr. Polinsky has been the Chief Executive Officer of Great North Capital Consultants, Inc., a financial advisory company he founded. Great North Capital Consultants advises corporate clients on matters regarding corporate and governance structures, public company acquisitions of private companies and other transaction-related matters, and also makes direct investments into public and private companies. Since 2007, Mr. Polinsky has been an independent director of Wizzard Software Corporation, a Pennsylvania-based company specializing in speech recognition technology. Mr. Polinsky earned a Bachelor of Science degree in hotel administration at the University of Nevada at Las Vegas.

Joseph A. Geraci, II co-founded the Company in January 2006 and has been a director and the Chief Financial Officer of the Company since that time. Since February 2002 through the present time, Mr. Geraci has been managing member of Isles Capital, LLC, an advisory and consulting firm that assists small businesses, both public and private,

in business development. In March 2005, Mr. Geraci also became the managing member of Mill City Advisors, LLC, the general partner of Mill City Ventures, LP, and Mill City Ventures II. LP, each a Minnesota limited partnership that invested directly into both private and public companies. From January 2005 until August 2005, Mr. Geraci served as the Director of Finance for Gelstat Corporation, a purveyor of homeopathic remedies, based in Bloomington, Minnesota. Mr. Geraci provided investment advice to clients as a stockbroker and Vice President of Oak Ridge Financial Services, Inc., from June 2000 to December 2004. While at Oak Ridge Financial Services, Mr. Geraci's business focused on structuring and negotiating debt and equity private placements with both private and publicly held companies. Currently, Mr. Geraci is a managing principal and active investor in and through a number of private and special equities vehicles. In this regard, Mr. Geraci actively participates in the evaluation, negotiation and structuring of all investments made by these funds, as well as coordinating and executing exit strategies for such investments. From his career and investment experiences, Mr. Geraci has established networks of colleagues, clients, co-investors, and the officers and directors of public and private companies. Mr. Geraci was employed at other Minneapolis brokerage firms from July 1991 to June 2000. These networks offer a range of contacts across a number of sectors and companies that may provide opportunities for investment, including many that meet the Company's screening criteria.

Board of Directors

Minnesota law and our charter documents provide our Board of Directors with the power to manage our property, affairs and business. Under our bylaws, directors hold office initially for a term expiring at the next annual meeting of our shareholders and until the director's successor is elected and qualifies, or until the earlier of death, resignation, removal or disqualification of the director. Currently Mr. Polinsky is the Chairman, even though he is an "interested person" under the 1940 Act. At this time, we feel it is appropriate for Mr. Polinsky to serve as Chairman given our limited financial resources and infrastructure.

When considering whether directors have the experience, qualifications, attributes and skills to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Board of Directors focuses primarily on the information discussed in each of the directors' individual biographies set forth above. With regard to Mr. Hammer, the board considered his significant experience, expertise and background with regard to financial matters, and his experience and skills in managing investment portfolios. With regard to Mr. Larson, the board considered his background and experience with financial matters and his prior experiences as a Chief Financial Officer and Chief Executive Officer of public reporting companies. With respect to Mr. Zipkin, the board considered his knowledge, experience and skills in the finance, public securities and investment banking fields. With regard to Mr. Polinsky, the board considered his experience with the Company and in providing strategic and corporate advice and making investments through his other enterprises. In the case of Mr. Geraci, the board considered his extensive background and knowledge of the stock and brokerage matters, investment history and his prior experience managing investment funds and serving as a Chief Financial Officer.

The Board of Directors periodically reviews relationships that directors have with the Company to determine whether the directors are independent. Directors are considered "independent" as long as they are not "interested persons" under the 1940 Act and they do not accept any consulting, advisory or other compensatory fee (other than director fees) from us, are not an affiliated person of the Company or its subsidiaries (e.g., an officer or a beneficial holder of more than 10% of our common stock) and are independent within the meaning of applicable laws, regulations and the Nasdaq listing rules. In this latter regard, the Board of Directors uses the Nasdaq listing rules (specifically, Section 5605(a)(2) of such rules) as a benchmark for determining which, if any, of its directors are independent, solely in order to comply with applicable SEC disclosure rules. However, this is for disclosure purposes only. It should be understood that the Company's shares are listed on the OTC Bulletin Board, and not listed for trading on any securities exchange or listing service. The Board of Directors has determined that, of its current directors, Messrs. Zipkin, Larson and Hammer are independent.

The Board of Directors formed an Audit Committee and Compensation Committee in March 2013. The members of the Audit Committee are Christopher Larson and Laurence S. Zipkin, each of whom is independent for purposes of the 1940 Act. Mr. Zipkin currently serves as chair of the Audit Committee. The board has adopted a charter for the Audit Committee. The Audit Committee is responsible for approving our independent accountants and recommending them to the board (including a majority of the independent directors) for approval and submission to its shareholders for ratification, reviewing with its independent accountants the plans and results of the audit engagement, approving

professional services provided by its independent accountants, reviewing the independence of its independent accountants and reviewing the adequacy of its internal accounting controls. The Audit Committee is also responsible for aiding the board in determining the fair value of debt and equity securities that are not publicly traded or for which current market values are not readily available. In addition, the Audit Committee is responsible for discussing with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies. The board has determined that Mr. Zipkin is an “audit committee financial expert” within the meaning of applicable SEC rules.

The members of the Compensation Committee are Christopher Larson and Laurence S. Zipkin, each of whom is independent for purposes of the 1940 Act. Mr. Larson currently serves as chair of the Compensation Committee. The board has adopted a charter for the Compensation Committee. The Compensation Committee is responsible for approving our compensation arrangements with its executive management, including bonus-related decisions and employment agreements with respect to such individuals.

Director Ownership of Company Stock

Name of Director	Dollar Range of Equity Securities in Registrant (1)	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies
Independent Directors		
Joseph Hammer	None	None
Christopher Larson	None	None
Laurence S. Zipkin	None	None
Interested Directors		
Douglas M. Polinsky (2)	Over $100,000	None
Joseph A. Geraci, II (3)	Over $100,000	None

(1) Information provided as of December 31, 2012 is based upon the closing price of our common stock ($0.61 per share) as of such date.

(2) Mr. Polinsky is our Chairman and Chief Executive Officer. Includes 69,411 common shares held by Great North Capital Consultants, Inc. (f/k/a Great North Capital Corp.), a Minnesota corporation of which Mr. Polinsky is the sole shareholder, officer and director, 290,055 common shares held by Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Polinsky and Geraci, 180,164 common shares held individually by Mr. Polinsky, and 12,728 common shares Mr. Polinsky holds as a custodian for his children (beneficial ownership of which Mr. Polinsky disclaims).

(3) Mr. Geraci is a director and our Chief Financial Officer. Includes 290,055 common shares held by Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Geraci and Polinsky, 248,802 common shares held by Mr. Geraci and 17,273 common shares held individually by Mr. Geraci’s spouse.

Compensation of Directors

As compensation for serving on our Board of Directors, each of our independent directors will receive a quarterly fee of $5,000 (or prorated portion thereof) payable in arrears, for their service to the Company on the board and any of its committees. In addition, we will reimburse our directors for their reasonable out-of-pocket expenses incurred in attending board and committee meetings. Our directors did not receive any compensation in 2012. No compensation will be paid to directors, in their capacity as such, who are not independent directors.

Executive Compensation

Summary Compensation Table

The following table sets forth the total compensation paid by us during our two most recent fiscal years ended December 31, 2012 and 2011 to the persons who served as our President and Chief Executive Officer and Chief Financial Officer during such periods (collectively, the "named executives").

Name and Principal Position(s)	Year	Salary ($)		Stock Awards		All Other Compensation	Total ($)
Douglas M. Polinsky, Chief Executive Officer and President	2012	0	(1)	$ 24,000	(2)	-	$ 24,000
	2011	0	(1)	$ 24,000	(3)	-	$ 24,000
Joseph A. Geraci, II, Chief Financial Officer	2012	0	(1)	$ 24,000	(2)	-	$ 24,000
	2011	0	(1)	$ 24,000	(3)	-	$ 24,000

(1) The named executive did not receive a salary during the years ended December 31, 2012 or 2011, primarily because the Company did not then have the resources to pay, or commit to pay, such individual a regular market-based salary for his services. In March 2013, the Company entered into an employment agreement with each named executive, which are described below.

(2) The named executive received a stock award of $24,000 for services rendered in 2012. This represents the dollar amount recognized for financial reporting purposes under ASC 505 with respect to stock grants to the named executive for his services during the year indicated.

(3) The named executive received a stock award of $24,000 for services rendered in 2011. This represents the dollar amount recognized for financial reporting purposes under ASC 505 with respect to stock grants to the named executive for his services during the year indicated.

Employment Agreements with Executives

In March 2013, we entered into employment agreements with each of Messrs. Polinsky and Geraci. A summary of the material terms of those employment agreements is set forth below.

Mr. Polinsky's Employment Agreement

Mr. Polinsky is being employed for a term of three years as the Company's Chief Executive Officer and co-manager of the investment portfolio of the Company, and will receive an annual base salary of $50,000, which may be increased by the Compensation Committee of the Company's Board of Directors on an annual basis. Mr. Polinsky is also eligible for an annual cash bonus at the conclusion of each fiscal year up to Mr. Polinksy's base salary, as approved by the Compensation Committee of the Company's Board of Directors. Mr. Polinsky will also receive an amount of the Company's net income each fiscal year which, when aggregated with the foregoing base salary and annual bonuses, if any, paid with respect to such fiscal year, and any other perquisites or benefits paid to Mr. Polinsky during such fiscal year, together with all compensation (including any perquisites and benefits) paid to all other officers and employees of the Company, equals twenty percent (20%) of such net income of the Company after taxes for such fiscal year (the "Profit Sharing Compensation"). Profit-Sharing Compensation will be calculated based upon the completed audited financials of the Company for the applicable fiscal year and paid as soon as practicable following the completion of such audit. Company officers and employees eligible to receive any Profit-Sharing Compensation will, among themselves, determine the manner in which they will participate in such compensation. At this time Messrs. Polinsky and Geraci are the only two officers or employees of the Company entitled to any Profit Sharing Compensation. Mr. Polinsky will also be entitled to reimbursements for all reasonable and appropriate business expenses incurred in connection with the performance of his duties. The Company agrees that if it shall fail to qualify as a regulated investment company for any reason under the Internal Revenue Code, net income of the Company for purposes of the Profit Sharing Compensation will be calculated as if the Company were at all times qualified as a regulated investment company.

Upon termination of Mr. Polinsky's employment agreement, Mr. Polinsky shall be entitled to receive the foregoing compensation through the date of termination, and reimbursement for any expenses incurred by Mr. Polinsky through the date of such termination. If the Company terminates Mr. Polinsky's employment agreement for cause, it may offset against such payments any damages sustained by the Company as a result of the conduct constituting such cause.

Mr. Polinsky is prohibited from disclosing confidential information of the Company, and agreed not to solicit any employees of the Company during the term of the employment agreement and for a period of 12 months thereafter. Mr. Polinsky's agreement contains other customary terms and conditions.

Mr. Geraci's Employment Agreement

Mr. Geraci is being employed for a term of three years as the Company's Chief Finanical Officer and co-manager of the investment portfolio of the Company. In addition, Mr. Geraci may serve, if appointed by the Board of Directors of the Company, as the Chief Compliance Officer/Designated Officer of the Company for purposes of the procedures and policies of the Company contemplated in Rule 38a-1 under the Investment Company Act of 1940.

Mr. Geraci will receive an annual base salary of $100,000, which may be increased by the Compensation Committee of the Company's Board of Directors on an annual basis. Mr. Geraci is also eligible for an annual cash bonus at the conclusion of each fiscal year up to Mr. Geraci's base salary, as approved by the Compensation Committee of the Company's Board of Directors. Mr. Geraci will also receive an amount of the Company's net income each fiscal year which, when aggregated with the foregoing base salary and annual bonuses, if any, paid with respect to such fiscal year, and any other perquisites or benefits paid to Mr. Geraci during such fiscal year, together with all compensation (including any perquisites and benefits) paid to all other officers and employees of the Company, equals twenty percent (20%) of such net income of the Company after taxes for such fiscal year (the "Profit Sharing Compensation"). Profit-Sharing Compensation will be calculated based upon the completed audited financials of the Company for the applicable fiscal year and paid as soon as practicable following the completion of such audit. Company officers and employees eligible to receive any Profit-Sharing Compensation will, among themselves, determine the manner in which they will participate in such compensation. At this time Messrs. Polinsky and Geraci are the only two officers or employees of the Company entitled to any Profit Sharing Compensation. Mr. Geraci will also be entitled to reimbursements for all reasonable and appropriate business expenses incurred in connection with the performance of his duties. The Company agrees that if it shall fail to qualify as a regulated investment company for any reason under the Internal Revenue Code, net income of the Company for purposes of the Profit Sharing Compensation will be calculated as if the Company were at all times qualified as a regulated investment company.

Upon termination of Mr. Geraci's employment agreement, Mr. Geraci shall be entitled to receive the foregoing compensation through the date of termination, and reimbursement for any expenses incurred by Mr. Geraci through the date of such termination. If the Company terminates Mr. Geraci's employment agreement for cause, it may offset against such payments any damages sustained by the Company as a result of the conduct constituting such cause.

Mr. Geraci is prohibited from disclosing confidential information of the Company, and agreed not to solicit any employees of the Company during the term of the employment agreement and for a period of 12 months thereafter. Mr. Geraci's agreement contains other customary terms and conditions.

Outstanding Equity Awards at Fiscal Year End

The Company had no outstanding options, warrants, unvested stock awards or equity incentive plan awards as of December 31, 2012 held by any named executive OR DIRECTOR.

Control persons and principal shareholders

As of the close of business on March 27, 2013, we had outstanding 12,169,422 shares of common stock. Each share of capital stock is currently entitled to one vote on all matters put to a vote of our shareholders. The following table sets forth the number of common shares, and percentage of outstanding common shares, beneficially owned as of March 27, 2013, by:

- each director of the Company;
- each executive officer of the Company;
- all current directors and executive officers of the Company as a group; and
- each person or entity known by the Company to beneficially own more than 5% of our common stock.

Unless otherwise indicated in the table or its footnotes, the address of each of the following persons or entities is 130 West Lake Street, Suite 300, Wayzata, Minnesota 55391, and each such person or entity has sole voting and investment power with respect to the shares of common stock set forth opposite their respective name.

	Number of Shares Beneficially Owned [1]	**Percentage of Outstanding Shares [1]**	
Douglas M. Polinsky [2]	552,358	4.5	%
Joseph A. Geraci, II [3]	556,130	4.6	%
Joseph Hammer [4]	-	0.0	%
Christopher Larson [5]	-	0.0	%
Laurence Zipkin [6]	-	0.0	%
All current directors and executive officers as a group [7] (five persons)	818,433	6.7	%
Neal Linnihan 8154 Ingberg Circle Stillwater, MN 55082	2,500,000	20.5	%
	1,865,000	15.3	%

Scott and Elizabeth Zbikowski [8] 109 S.W. 50th Street Cape Coral, FL 33914			
Ervin Kramer 18 10th Street N.W. Adams, MN 55909	1,087,728	8.9	%
Donald Schreifels 6900 Wedgewood Drive Maple Grove, MN 55311	1,060,001	8.7	%
David Bester 19366 Century Court Farmington, MN 55024	1,000,000	8.2	%
Patrick Kinney [9] 5615 Gatewood Lane Greendale, WI 53129	942,278	7.7	%
William Hartzell 22990 Imme Road Siren, WI 54872	650,000	5.3	%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and includes general voting power and/or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days of the applicable record date, are deemed outstanding for computing the beneficial ownership percentage of the person holding such options or warrants but are not deemed outstanding for computing the beneficial ownership percentage of any other person.

(2) Mr. Polinsky is the Company's Chairman and Chief Executive Officer. Includes 69,411 common shares held by Great North Capital Consultants, Inc. (f/k/a Great North Capital Corp.), a Minnesota corporation of which Mr. Polinsky is the sole shareholder, officer and director, 290,055 common shares held by Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Polinsky and Geraci, 180,164 common shares held

individually by Mr. Polinsky, and 12,728 common shares Mr. Polinsky holds as a custodian for his children (beneficial ownership of which Mr. Polinsky disclaims).

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(3) Mr. Geraci is a director and the Company's Chief Financial Officer. Includes 290,055 common shares held by Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Geraci and Polinsky, 248,802 common shares held by Mr. Geraci and 17,273 common shares held individually by Mr. Geraci's spouse.

(4) Mr. Hammer is a director of the Company.

(5) Mr. Larson is a director of the Company.

(6) Mr. Zipkin is a director of the Company.

(7) Consists of Messrs. Polinsky, Geraci, Hammer, Larson and Zipkin.

(8) Based upon a Schedule 13G filed by Mr. and Mrs. Zbikowski, Mr. Zbikowski is the beneficial owner of 1,240,000 shares, and Mrs. Zbikowski is the beneficial owner of 625,000 shares. Mr. and Mrs. Zbikowski are husband and wife.

(9) Based upon a Schedule 13G filed by Mr. Kinney on March 19, 2013. Mr. Kinney may be deemed to be the beneficial owner of 942,278 shares, which includes 3,640 shares that are held in custodial accounts for the benefit of his grandchildren.

Determination of net asset value

The net asset value per share of our outstanding common stock will be determined quarterly, as soon as practicable after, and as of the end of, each calendar quarter, by dividing the value of our total assets (minus liabilities) by the total number of shares outstanding at the date as of which such determination is made.

In calculating the value of our total assets, we will value securities that are publicly traded at the closing price on the valuation date. Debt and equity securities that are not publicly traded are valued at fair value as determined in good faith by our Board of Directors. The board may, but shall not be required to, utilize the services of an independent valuation firm in arriving at the fair value of these securities. The types of factors that the board, or any independent valuation firm engaged by us, may take into account in providing its fair value recommendation to the valuation committee may include, as relevant:

- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments;
- the portfolio company's earnings;
- the markets in which the portfolio company does business;
- comparison to publicly traded companies;
- discounted cash flow analysis; and
- other relevant factors.

Determination of fair values involves subjective judgment and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

DIVIDENDS

We intend to distribute annually dividends to our shareholders. To avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of:

- 98% of our ordinary net taxable income for the calendar year;

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98% of our capital gains, if any, in excess of capital losses for the one-year period ending on October 31 of the calendar year; and

· any net ordinary income and net capital gains for the preceding year that were not distributed during such year.

We will not be subject to excise taxes on amounts with respect to which we are required to pay corporate income tax—e.g., retained and realized net long-term capital gains in excess of net short-term capital losses, or "net capital gains."

In order to qualify for tax treatment as a RIC, we will be required to distribute to our shareholders with respect to each taxable year at least 90% of the sum of our ordinary net income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. As a result, we intend to distribute to our shareholders substantially all of our net taxable income.

The rules applicable to RICs permit us to, and we may, retain for investment our net capital gains and elect to treat such net capital gains as a deemed distribution. If this happens, you will be treated as if you received an actual distribution of the capital gains we retain and then reinvested the net after-tax proceeds in our common stock. If this happens, you would be eligible to claim a tax credit against your federal income tax liability equal to your allocable share of the tax we paid on the capital gains deemed distributed to you.

Notwithstanding the foregoing, we can offer no assurance that we will achieve results that will permit the payment of any cash distributions. Furthermore, if we issue senior securities, we will be prohibited from making distributions if we fail to maintain the asset-coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We are in the process of finalizing an “opt-out” dividend reinvestment plan for our common shareholders, which we discuss immediately below. As a result, if we declare a dividend after the adoption of the dividend reinvestment