

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)

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.		

Edgar Filing: Mill City Ventures III, Ltd - Form N-2

	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.

TABLE OF CONTENTS

	Page
Precautionary Note Regarding Forward-looking Statements	1
Business	2
Risk Factors	12
Management	21
Control Persons and Principal Shareholders	28
Determination of Net Asset Value	30
Dividends	30
Distribution Reinvestment Plan	31
Material U.S. Federal Income Tax Considerations	32
Description of our Capital Stock	39
Price Range of Common Stock	41
BDC Regulation	42
Share Repurchases	44
Custodian, Transfer and Dividend Paying Agent and Registrar	44
Brokerage Allocation and Other Practices	45
Independent Registered Public Accounting Firm	45
Available information	45
Financial Statements	46

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 “contingent,” and the 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:

3

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 co