

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2023

or

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

For the transition period from _____ to _____

Commission File Number 001-41472

MILL CITY VENTURES III, LTD.

(Exact name of registrant as specified in its charter)

Minnesota

(State of incorporation)

90-0316651

(I.R.S. Employer Identification No.)

1907 Wayzata Blvd #205

Wayzata, Minnesota

(Address of principal executive offices)

55391

(Zip Code)

Former name, former address and former fiscal year, if changed since last report

Registrant's telephone number, including area code: (952) 479-1923

Securities registered pursuant to Section 12(b) of the Act:

Common stock, \$0.001 par value per share

The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Emerging growth company

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to Section 240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by persons other than officers, directors and more than 5% shareholders of the registrant as of June 30, 2023 was approximately \$ 4,354,000 based on the closing sales price of \$2.41 per share as reported by the Nasdaq Capital Market. As of March 31, 2024, there were 6,385,255 shares of the registrant's common stock, \$0.001 par value, outstanding.

DOCUMENTS INCORPORATED IN PART BY REFERENCE

None.

Mill City Ventures III, Ltd.

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PART I

ITEM 1 BUSINESS

Overview

Mill City Ventures III, Ltd. is a Minnesota corporation that was incorporated in January 2006. From our inception until December 13, 2012, we were a development-stage company involved in the gaming and entertainment industry. In 2013, we elected to become a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). We operated as a BDC until we withdrew our BDC election on December 27, 2019. Since that time, we have engaged in the business of providing short-term specialty finance solutions primarily to private businesses, micro- and small-cap public companies and high-net-worth individuals. To avoid again becoming subject to regulation under the 1940 Act, we generally seek to structure our short-term loans such that they do not constitute "securities" under federal securities law, and we monitor our holdings as a whole to ensure that no more than 40% of our total assets may consist of "investment securities," as that term is defined under the 1940 Act.

The principal specialty finance solutions we provide are high-interest short-term lending arrangements. Typically, these lending arrangements involve us obtaining collateral as security for the borrower's repayment of funds to us, or personal guarantees from the principals or affiliates of the borrower. In some circles, short-term high-interest collateralized lending is referred to as "hard-money lending."

We believe we are generally able to charge high interest for our specialty finance solutions because: (i) banks and other traditional providers of credit may have neither the expertise nor the infrastructure needed to evaluate creditworthiness and risks in a timeframe suitable for a potential borrower, preferring instead to process transactions and structures that present few novel issues or risks; and (ii) we will often be able to devote time and attention to transactions involving a smaller dollar amount than an institutional lender will view as worthwhile. These beliefs essentially explain why we refer to our business as "specialty finance"— financing that may involve structures that are unique, creative, and often bespoke; and that may involve dollar amounts that are not suitable for institutional lenders.

We generally provide specialty finance solutions that are short-term in nature. By this, we mean lending arrangements that mature or come due within nine months of the lending date. We view the provision of short-term finance as desirable for two principal reasons: (i) it helps minimize the risk of non-performance; and (ii) it helps minimize regulatory risk.

In terms of non-performance risk, short-term lending requires us to focus upon, and a potential borrower to identify to us, us a near-term source of liquidity for repayment of the funds they borrow from us. This permits us to evaluate that source of repayment clearly and carefully, thus helping identify the potential risks involved in a particular transaction and how we may be able to include structural terms, such as specific collateral and collateral-related arrangements, guarantees, or other types of covenants or arrangements that mitigate these risks.

In terms of regulatory risk, we believe that short-term lending permits us to avail ourselves of a court-recognized exception for treating promissory notes (evidencing a loan) as "securities" under federal securities law. This exception generally applies to promissory notes with short-term maturities of nine months or less. Our ability to avail ourselves of this exception, and to more generally structure our transactions in such a way to avoid them being properly considered as "securities" under federal securities laws, is important because we believe that it enables us to avoid once again becoming subject to regulation under the 1940 Act. Below we discuss in further detail our process for evaluating transactional terms and structures with a view to remaining outside of the regulatory regime of the 1940 Act (please refer to "Investment Process" below).

Examples of the kinds of the specialty finance solutions we have considered or provided to date, and may continue to provide in the future, include:

- Short-term secured loans for real estate development;
- Short-term unsecured loans (with an option to acquire collateral security) to a business;
- Short-term secured loans to a business for operating capital; and
- Short-term secured loans to an individual owed a forthcoming tax refund

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In addition, we occasionally explore and evaluate our ability to enter into other kinds of short-term specialty finance transactions. Examples include the expansion of our efforts to purchase adjudicated settlements, the purchase (at discounted rates) of receivables owing to professionals on account of certain workers' compensation claim, and short-term consumer finance lending.

Sourcing Transactions

We believe that our management's strong combination of experience and contacts in the securities and investment finance sector, including the experience and contacts of our independent directors, should be sufficient to continue attracting suitable prospective investment opportunities. To date, the network of contacts of our management and directors has been successful thus far in sourcing all of the transactions in which we have participated. Accordingly, we presently do not have any plans to hire any business development professionals to assist us with transactional volume.

Competition

The market for specialty finance is competitive, largely as a result of the participation of various types of professionally managed pooled investment funds such as private equity and private credit funds, including secured, non-secured debt and mezzanine-debt funds, and other types of professional finance companies seeking the high returns that are possible in specialty finance and hard-money lending. Nevertheless, we believe we are well positioned to compete successfully in this market because of our entrepreneurial, creative and flexible approach to specialty finance opportunities, and our management's experience in entrepreneurial ventures and finance.

Throughout our history and in particular after ceasing to be a BDC, we have approached investment opportunities flexibly and creatively in terms of transactional structures and terms. In part, we are able to be flexible and creative because we are not subject to many of the regulatory limitations that govern our other more traditional or institutional competitors. Those competitors are often subject to limitations on the type transactions they undertake, the amount that may be invested in a specific transaction or a particular type of transaction, the markets in which they operate, the maturity or time horizon of their investment, uses of proceeds, or otherwise. These limitations are often imposed by the agreements and documents governing the pooled investment vehicles, or otherwise self-imposed in order to facilitate the investment vetting and due-diligence process, and the documentation and structuring process. More rarely, these limitations may arise from governing regulations or interpretations thereof. For our part, we believe that approaching investment opportunities flexibly expands our overall transactional opportunities, diversifies our risk by avoiding dependence in any material way on a particular borrower, type of transaction, or market or industry niche, and permits us to avail ourselves of the maximum number of relationships from which we source investment opportunities. Moreover, we believe that this flexible approach to structuring our transactions and investments will facilitate the development of positive long-term relationships with our borrowers.

We believe that the only significant limitation on our ability to flexibly structure transactions arises from our desire to remain outside the regulation of the 1940 Act. In order to meet this goal, we intend and aim to structure the vast majority of our transactions (by dollar amount) in ways such that they are not properly considered "securities" under federal securities laws, including the 1940 Act.

For our investors, the freedom afforded to us through the lack of substantive regulation governing the types of transactions we enter into and our methods of operation permits us to allocate our resources, at any given point in time, to those types of transactions that we believe may lead to the highest risk-adjusted returns or the steadiest stream of such returns.

Our management team and Board of Directors has significant experience in a variety of entrepreneurial ventures, including service as management and directors for small and large public companies, private businesses, start-up and development-stage businesses, and the securities and finance industries. As a result of this diverse general experience and particular experience in transactional finance, we believe we are able to manage the evaluation and due-diligence process involved in our investment opportunities swiftly and efficiently, by collaborating with our professional advisers and focusing on high-level and material issues.

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Other Matters

We do not believe that we are dependent in any material way on any particular borrower, type of specialty finance transaction, or industry.

We do not own or use through license any patents, trademarks, or other intellectual properties and we do not believe that any such assets would be material to our business.

Sometimes the types of transactions we engage in are governed by particular laws, regulations, or rules. For example, lending transactions in which high-net-worth individuals (as opposed to entities) are the borrower will nearly always involve state law usury limitations. Transactions in which we seek and obtain collateral as security for obligations owed to us involve legal issues arising under the Uniform Commercial Code or its various state law iterations. To date, we have not engaged in transactions that require us to obtain licensure or a permit prior to entering into the transaction—e.g., brokering transactions or engaging in licensed consumer finance activities.

Pending the consummation of transactions and deployment of cash, we generally keep the majority of our assets in cash, cash equivalents such as money-market investments, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

Our Investment Process

We have identified several criteria that we believe are generally important guidelines for us to meet our financial objectives. These criteria are, however, only general guidelines for our investment decisions and, in the case of some transactions in which we invest, fewer than all—or even none—of these criteria will be met.

- *Existing Liquidity Source.* Because the vast majority of our transactions involve short-term maturities, we typically seek to identify a liquidity source for the borrower to repay us. Examples of sources of potential liquidity may include accounts receivable, another valuable asset, or a pending payment (e.g., a tax refund, or a litigation judgment or settlement payment) that is reasonably expected to pay out prior to the maturity of the credit we provide.
- *Collateral Value.* We will often, but not always, seek to collateralize the obligations owing to us. Our ability to identify valuable collateral is a significant factor in our credit analysis and determination of the attractiveness of a potential transaction. This analysis will often involve legal counsel, both to assist in the identification of potential collateral assets, and to better understand the ease with a security interest in the collateral may be granted, perfected and, if necessary, foreclosed upon and the relevant jurisdiction(s) involved.
- *Experienced and Capable Management.* In transactions involving business borrowers, we seek businesses that have an experienced, knowledgeable and capable management team.
- *Competitive Position.* In transactions involving business borrowers, we will seek to invest in transactions with businesses that have developed, or appear poised to develop, a strong competitive position within their respective industry sector or niche.

Cash Flow. In transactions involving business borrowers, we will seek to invest in businesses that are profitable or nearly profitable on an operating cash flow basis, principally so that the business' operating cash flow may serve as another source of liquidity from which we may ultimately be repaid.

due-diligence examination of the prospective borrower, the likely source or sources of liquidity for their repayment to us, and other aspects of the borrower or its assets (e.g., assets of the borrower that may serve as collateral security for the obligations that may be owing to us). Our due-diligence examination for each transaction will necessarily be unique and tailored to the specific transaction, but will generally be undertaken in light of the following facts and circumstances:

- our familiarity with the borrower (or, in the case of a business borrower, our familiarity with management or other persons such as directors involved with the borrower);
- in the case of a business borrower, our review and assessment of the potential borrower's financing history, as well as the likely need for additional financings after our transaction;
- the industry in which the borrower operates, our knowledge and familiarity with that industry, our assessment of the complexity of the business, any regulatory matters or other unique aspects presenting special risks, and the competitive landscape faced by the borrower;
- the amount of dollars involved in the potential transaction;
- where the borrower is located, how it is organized as an entity, as well as its management and ownership structure and profile;
- whether we might have been involved with a transaction of the same or similar kind before;
- the ease with which we can evaluate the borrower's source or sources of liquidity;
- the ease with which we can apprehend the process involved with taking collateral security in some or all of the borrower's assets; and
- the ease with which we could realize on that collateral if repayment were not otherwise forthcoming.

The assessments described above outlines our general approach for our investment decisions, although not all of such activities will be followed in each instance, or some may be stressed more so than others depending on facts and circumstances. Upon successful completion of this preliminary evaluation, we will typically (1) evaluate our own regulatory concerns (i.e., to what extent the potential transaction may properly be considered an investment in a "security" for purposes of the 1940 Act and, if necessary, consider alternative structures to alleviate any risks to our company relating thereto), and (2) decide whether to move forward towards negotiating a letter of intent and, thereafter, definitive documentation for our transaction. Depending on timing, we may not use a letter of intent and will instead proceed directly to definitive documentation.

As indicated above, to avoid becoming subject to the regulatory requirements of the 1940 Act, we monitor our investment holdings as a whole to ensure that investments and other holdings which may be considered "investment securities" do not comprise more than 40% of our total assets. We undertake this analysis (1) at least on a quarterly basis and in connection with the review and preparation of our financial statements filed as part of our quarterly and annual reports with the SEC, and (2) at other times when we are considering how to structure a new transaction that is of a significant size—with "significance" largely based on the outcome of our most recent quarterly review. This review is generally undertaken by our Chief Financial Officer and may involve our outside legal counsel, in particular in a case where we are considering the structure of a potential new transaction.

In general, our analysis starts with the length or duration of a potential new transaction. Although federal securities laws generally define "securities" in such a way as to include promissory notes, the U.S. Supreme Court held in *Reves v. Ernst & Young*, 110 S. Ct. 945 (1990), that certain kinds of promissory notes are not properly considered securities. Over time, court precedent has developed to identify these kinds of promissory notes as generally not constituting securities:

- notes that mature in nine months or less;
- notes secured by a mortgage or lien on a home;
- notes secured by a small business or business assets;
- so-called "character loans" made to a bank customer;
- notes delivered or borrowings entered into through consumer finance;
- commercial loans made to businesses;
- loans secured by accounts receivable (e.g., factoring);

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In addition to the "types" of financing arrangements noted above, court precedent indicates that there may be facts and circumstances surrounding a transaction that may cause a promissory note to not be considered a "security" under federal securities laws. For example, while it is presumed that a promissory note that matures in more than nine months is a "security," this presumption may be rebutted (with the conclusion that such a promissory note is not a properly considered a security) upon an evaluation of the following factors:

- whether the borrower's motivation is to raise money for general business use, and whether the lender's motivation is to make a profit, including interest;
- whether the borrower's plan of distribution for the promissory note resembles the plan of distribution of a security;
- whether the investing public, or the parties to the transaction, reasonably expects that the note is a security; and
- whether there is a regulatory scheme that protects the investor other than the securities laws (e.g., Federal Deposit Insurance).

While the application of these factors can be helpful in some instances, often the factors and the proper manner of weighting them are unclear. As a result, the analyses we periodically undertake focuses on the more bright-line types of lending arrangements enumerated above—i.e., promissory notes maturing in nine months or less, etc.

Our Management and Employees

Currently, Mr. Douglas M. Polinsky, the Chief Executive Officer and Chairman of our Board of Directors, and Joseph A. Geraci, II, our Chief Financial Officer and a director of the company, serve as our senior management team. These are also the only two persons employed by our company that have a management role. There are three persons in total employed by our company.

ITEM 1A RISK FACTORS

You should consider the following risk factors, in addition to the other information presented or incorporated by reference into this Annual Report on Form 10-K, in evaluating our business and any investment decision relating to our securities.

We have a short operating history upon which to evaluate our current business.

We withdrew our election to be treated as a BDC under the 1940 Act at the end of 2019, and during the years since that time have refocused our business on providing short-term specialty finance solutions to private businesses, small-cap public companies and high-net-worth individuals. Given that our current business has been developed and pursued over the four years prior to this filing, investors have limited means to evaluate our performance, its evolution, and the likelihood of our future success.

We may need to raise additional capital to fund our operations, and such capital may not be available to us in sufficient amounts or on acceptable terms.

For the time being, management believes that our current cash is sufficient to continue operations for the foreseeable future. Nevertheless, various future developments may cause us to seek or require additional financing. In addition, we may determine to seek additional financing in order to avail ourselves of additional opportunities to provide specialty finance solutions to borrowers. Alternatively, we may seek additional financing in the event that a material portion of our investments default, leaving us with little means to pay for our operations and continue making investments.

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In any event, additional financing could be sought from a number of sources, including but not limited to additional sales of equity or debt securities, or loans from financial institutions or our affiliates. We cannot, however, be certain that any such financing will be available on terms favorable or acceptable to us if at all. If additional funds are raised by the issuance of our equity securities, such as through the issuance of stock, convertible securities, or the issuance and exercise of warrants, then the ownership interest of our existing shareholders will be diluted. If additional funds are raised by the issuance of debt or other equity instruments, we may become subject to certain operational limitations, and such securities may have rights senior to the rights of our common shareholders. If adequate funds are not available on acceptable terms, we may be unable to consummate acquisitions or investments desired by our management and board.

If we are unable to maintain diverse and robust sources of capital, our growth prospects, business, financial condition and results of operations could be adversely affected.

Our business depends in part on maintaining diverse and robust sources of capital to originate our short-term loans. In January 2022, we entered into a Loan and Security Agreement (the "Loan Agreement") with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust (collectively, the "Lenders"). Mr. Berman is a director of our company. Under the Loan Agreement, the Lenders made available to us a \$5 million revolving line of credit for us to use in the ordinary course of our short-term specialty finance business. Amounts drawn under the Loan Agreement accrued interest at the per annum rate of 8%, and all our obligations under the Loan Agreement were secured by a grant of a collateral security interest in substantially all of our assets. As a Lender, Mr. Berman was obligated to furnish only one-half of the aggregate \$5 million available under the Loan Agreement. The Loan Agreement had a five-year term ending on January 3, 2027, at which time all amounts owing under the Loan Agreement were to become due and payable; subject, however, to each Lender's right, including Mr. Berman, to terminate the Loan Agreement, solely with respect to such Lender's obligation to provide further credit, at any time after January 3, 2023. See "Certain Relationships and Related Transactions." In January 2024, we terminated the Loan Agreement having earlier satisfied all of our obligations thereunder.

Events of default or breaches of financial, performance or other covenants, or worse than expected performance of one or more of our short-term loans, could reduce or terminate our future access to funding. The availability and capacity of sources of capital also depends on many factors that are outside of our control, such as credit market volatility and regulatory reforms. In the event that we do not maintain adequate sources of capital, we may not be able to maintain the necessary levels of funding to retain current loan volume, which could adversely affect our financial condition and results of operations.

Changes in laws or regulations, or a failure to comply with laws and regulations, may adversely affect our business, including our results of operations and ultimately the price of our common stock.

We are subject to various local, state and federal laws and regulations. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and manner of application or enforcement may also change from time to time and those changes could have a material adverse effect on our business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, could have a material adverse effect on our business and results of operations. Any of these outcomes would likely adversely affect the trading price of our common stock.

Changes in consumer finance and other applicable laws and regulations, as well as changes in government enforcement policies and priorities, may negatively impact the management of our business, results of operations, ability to offer certain kinds of specialty finance solutions or the terms and conditions upon which they are offered, and our ability to compete.

Consumer finance regulation is constantly changing, and new laws or regulations, or new interpretations of existing laws or regulations, could have a materially adverse impact on our ability to operate as currently intended or as we may intend to expand in the future, and cause us to incur significant expense in order to ensure compliance. Federal and state financial services regulators are also enforcing existing laws, regulations, and rules aggressively and enhancing their supervisory expectations regarding the management of legal and regulatory compliance risks. These regulatory changes and uncertainties make our business planning more difficult and could result in changes to our business model and potentially adversely impact our results of operations. Because we operate as a non-bank lender, we are sometimes subject to state licensing and usury laws. Furthermore, to the extent applicable, these laws can impose specific statutory liabilities upon creditors who fail to comply with their provisions and may affect the enforceability of a loan. If the application of consumer protection laws were to cause our loans, or any of the terms of our loans, to be unenforceable against the relevant borrowers, our business may be materially adversely affected. Even if we seek to comply with licensing and other requirements that we believe may be applicable to us, if we are found to not have complied with applicable laws, we could lose one or more of our licenses or authorizations or face other sanctions or penalties or be required to obtain a license in one or more such jurisdictions, which may have an adverse effect on our business.

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New laws, regulations, policy or changes in enforcement of existing laws or regulations applicable to our business, or reexamination of current practices, could adversely impact our profitability, limit our ability to continue existing or pursue new business activities, require us to change certain of our business practices, affect retention of key personnel, or expose us to additional costs, including compliance costs. These changes also may require us to invest significant resources, and devote significant management attention, to make any necessary changes and could adversely affect our business.

Although we have identified general guidelines that we believe are important in evaluating prospective investment opportunities, we may enter into transactions with borrowers that do not meet

such guidelines, increasing the risk that the price of our common stock could be volatile.

Although we have identified general guidelines for evaluating prospective investment opportunities, it is possible that a borrower with which we enter into a transaction will not have all, or any, of the attributes outlined in those guidelines. If we complete transactions with borrowers that do not meet some or any of these guidelines, it is possible that such an investment may not be as successful as an alternative opportunity that were to satisfy some or all of those guidelines. Investments that do not perform as well as imagined, or as well as they otherwise might have, in combination with the public knowledge that we may stray, or have strayed, from strict implementation of our investment guidelines, could affect the volatility of the trading price of our common stock.

We may provide specialty finance solutions to early-stage companies, financially unstable businesses, or a borrower lacking an established record of revenue or earnings, which could adversely affect the price of our common stock.

While we believe that being entrepreneurial in our approach to specialty finance is a strength, we may complete investments with an early-stage company, a financially unstable business or an entity lacking an established record of revenues, cash flows or earnings. These kinds of transactions present numerous risks associated with investing in a business without a proven business model and with limited historical financial data, volatile revenues, cash flows or earnings and difficulties in obtaining and retaining key personnel. Although our management endeavors to evaluate the risks inherent in each particular investment we consider and make, we may not be able to properly ascertain or assess all of the significant risk factors and we may not have adequate time to complete a full evaluation of those risks. Furthermore, some of these risks may be outside of our control and leave us with no ability to control or reduce the chances that those risks will adversely impact a borrower or our likelihood of repayment. The manifestation of any of these risks could adversely affect the trading price of our common stock.

Many of our specialty finance investment transactions involve borrowers about which little, if any, information is publicly available, which may impair our ability to identify borrowers able to repay our loans and adversely affect the price of our common stock.

In pursuing our business, we often interact with a privately held companies about which very little public information exists. As a result, we are often required to make our investment decision on the basis of limited information, nearly all of which is obtained from the business itself, which may result in our consummating an investment with a borrower that is not as solvent or profitable as we suspected, if at all. These risks could affect our results of operations and, ultimately, the trading price of our common stock.

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If we are deemed to be an investment company under the 1940 Act, we may be required to institute burdensome compliance requirements and our activities may be restricted. In such an event, our business would likely be materially and adversely affected.

If we are deemed to be an investment company under the 1940 Act, then our activities may be restricted, including:

- restrictions on the nature of our investments;
- restrictions on the issuance of securities;
- a requirement to register as an investment company;
- adoption of a specific form of corporate structure and changes in corporate governance;
- the hiring of a chief compliance officer, and adoption and implementation of various policies and requirements; and
- additional reporting, record-keeping, voting, proxy and disclosure requirements, together with other rules and regulations.

In order not to be regulated as an investment company under the 1940 Act, unless we can qualify for an exclusion, we must ensure that we are engaged primarily in a business other than investing, reinvesting or trading of "securities" and that our activities do not include investing, reinvesting, owning, holding or trading "investment securities" constituting more than 40% of our assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

We do not believe that our principal activities will subject us to the 1940 Act. To this end, we hold reserve un-invested assets in cash and United States "government securities" within the meaning of Section 2(a)(16) of the Act having a maturity of 185 days or less or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the 1940 Act, which invest only in direct U.S. government treasury obligations. Furthermore, we monitor our investment holdings as a whole to ensure that investments and other holdings which may be considered "investment securities" do not comprise more than 40% of our total assets. We undertake this analysis (1) on a quarterly basis and in connection with the review and preparation of our financial statements filed as part of our quarterly and annual reports with the SEC, and (2) at other times when we are considering how to structure a new transaction that is of a significant size—with "significance" largely based on the outcome of our most recent quarterly review. This review is generally undertaken by our Chief Financial Officer and may involve outside legal counsel, in particular in a case where we are considering the structure of a potential new transaction.

If, however, we do not invest as discussed above or are otherwise unsuccessful in ensuring that no more than 40% of our total assets consist of "investment securities," then we may be deemed to be subject to the 1940 Act. It is also possible that regulatory authorities, such as the SEC, may disagree with our analysis of whether certain investment holdings constitute "investment securities" and may more broadly disagree with our position that the short-term promissory notes we receive in exchange for our short-term loans are not properly considered "securities" under federal securities law and the 1940 Act in particular. If that were to be the case, compliance with the additional regulatory burdens imposed under the 1940 Act would require additional expenses for which we have not allotted funds, and would surely hinder our ability to operate as profitably as we have since the withdrawal of our BDC election. This outcome would of course adversely affect the trading price of our common stock.

We may engage in transactions with businesses that may be affiliated with our officers, directors or significant shareholders, and which may involve actual or potential conflicts of interest.

We may decide to make investments in one or more businesses affiliated with our officers, directors or significant shareholders. Such investment opportunities may compete with other opportunities for our investment dollars. Although we are not specifically focusing on, or targeting, any particular transaction with any affiliates or affiliated entities, we would pursue such a transaction if we determined that such an affiliated investment were attractive from a risk-adjusted return perspective, and such transaction were approved by a majority of our independent and disinterested directors. Any such activity would involve actual or potential conflicts of interest. Although we are confident that we can navigate these conflicts consistent with best practices and applicable law, the existence or appearance of such conflicts of interest

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A limited number of shareholders control a significant majority of our voting stock and, as a result, control the election of our Board of Directors. As a result, these shareholders may exert an influence on actions requiring a shareholder vote, potentially in a manner that you do not support.

Nine shareholders (five of whom are presently officers and directors) beneficially own shares representing over 54% of our issued and outstanding common stock. As a result, investors in our common stock cannot reasonably expect to have any significant influence over the election of our directors or other matters submitted to a vote of our shareholders. Instead, our existing significant shareholders will exert a substantial influence on the election of our directors and any actions requiring or otherwise put to a shareholder vote, potentially in a manner that you do not support. Examples of such voting matters, apart from the election of our directors, includes amendments to our articles of incorporation, bylaws, and approval of major corporate transactions. The concentrated amount of control over our affairs held by a relatively few number of significant investors could serve to reduce the attractiveness or liquidity of our common stock, and thereby depress its trading price.

Our ability to identify and consummate investment opportunities, and any need we may have for additional capital, will almost certainly be affected by general economic conditions.

General economic conditions will almost certainly impact our ability to (i) identify, pursue and consummate investment opportunities, and (ii) if necessary, seek and obtain additional financing on terms acceptable or favorable to us, if at all. Therefore, a deterioration in general economic conditions may adversely affect our business or slow the growth of our business.

Our reputation and brand are important to our success, and if we are unable to continue developing our reputation and brand, our ability to retain existing capital sources, our ability to attract borrowers could be adversely affected.

We believe that maintaining a strong brand and trustworthy reputation is critical to our success and our ability to attract borrowers, attract new capital sources and maintain existing capital sources. Factors that affect our brand and reputation include:

- the non-bank lending industry generally;
- our company specifically, including the quality and reliability of our investment process, our ability to effectively manage and resolve issues with our borrowers, our collection practices, our privacy and security practices, any litigation in which we may become involved; any regulatory activity to which we may become involved; and the overall experience of our borrowers.

Negative publicity or negative public perception of these factors, even if inaccurate, could adversely affect our brand and reputation. Any negative publicity or negative public perception of the loans we make, or similar loans made by similar lenders or our competitors, may also result in negative publicity that is adverse to our reputation. If we are unable to protect our reputation, our business, financial condition and results of operations could be adversely affected.

We are highly dependent on the services provided by certain executives and key personnel.

Our success depends in significant part upon the continued service of our senior management personnel. In particular, we are materially dependent upon the services of Douglas M. Polinsky, our Chief Executive Officer and Chairman, and Joseph A. Geraci, II, our Chief Financial Officer and a director of our company. Practically, we cannot prevent the departure of these executives, whether due to death, disability, retirement or otherwise. Any loss of the services provided by these executives would likely have a material and adverse effect on our operations and ability to execute our business plans.

Our articles of incorporation grant our Board of Directors the power to designate and issue additional shares and classes of common and preferred stock.

Our authorized capital consists of 111,111,111 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 other classes or series of preferred stock) as it deems appropriate, and may establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. The rights of holders of new classes or series of stock that may be so designated and 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—common or preferred—will dilute the ownership interest of then-current holders of our common stock and may dilute our book value per share.

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We may issue additional common stock or preferred shares without the approval of our shareholders. Any such issuances would dilute the interest of our shareholders and likely present other risks.

Our articles of incorporation authorize the issuance of up to 111,111,111 shares of capital stock. Because we have only 6,385,255 shares of common stock issued and outstanding, our Board of Directors has the power and authority to issue a substantial number of additional shares of common stock or preferred shares. The issuance of additional common stock or preferred shares:

- may significantly dilute the equity interest of our then-current shareholders;
- may subordinate the rights of holders of common stock if preferred shares are issued with rights senior to those afforded our common stock;
- could cause a change in control if a substantial number of common stock are issued, which could result in the resignation or removal of our present officers and directors; and
- may adversely affect prevailing market price for our common stock.

Cyber incidents or attacks directed at us could result in information theft, data corruption, operational disruption and/or financial loss.

We depend on digital technologies, including information systems, infrastructure and cloud applications and services, including those belonging to third parties with whom we deal. Sophisticated and deliberate attacks on, or security breaches in, our systems or infrastructure, or the systems or infrastructure of third parties or the cloud, could lead to corruption or misappropriation of our assets, proprietary information and sensitive or confidential data. We have not made a significant investment in data security protection, and we may not be sufficiently protected against such occurrences. We may not have sufficient resources to adequately protect against, or to investigate and remediate any vulnerability to, cyber incidents. It is possible that any of these occurrences, or a combination of them, could have adverse consequences on our business and lead to financial loss.

Our stock price may be volatile, or may decline regardless of our operating performance, and you could lose all or part of your investment as a result.

You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuation in the market value of your investment. The market price of our common stock could be subject to significant fluctuations in response to the factors described in this section and other factors, many of which are beyond our control. Among the many factors that could affect our stock price are:

- Actual or anticipated variations in our quarterly and annual operating results or those of companies perceived to be similar to us;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors, or differences between our actual results and those expected by investors and securities analysts;

- Fluctuations in the market valuations of companies perceived by investors to be comparable to us;
- The public's response to our or our competitors' filings with the SEC or announcements regarding, significant transactions, acquisitions, strategic investments, litigation, or other significant matters;
- Speculation about our business in the press or the investment community;
- Future sales of our shares;
- Actions by our competitors;
- Additions or departures of members of our senior management or other key personnel; and
- The passage of legislation or other regulatory developments affecting us or our industry.

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In addition, the securities markets have experienced significant price and volume fluctuations that have affected and continue to affect market price of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, or international currency fluctuations, may negatively affect the market price of our shares.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to securities class action litigation that, even if unsuccessful, could be costly to defend and a distraction to management.

We do not intend to pay dividends on our common stock.

We intend to retain all of our earnings, if any, for the foreseeable future to finance the operation and expansion of our business and do not anticipate paying cash dividends. Any future determination to pay dividends will be at the discretion of our Board of Directors, subject to compliance with applicable law and any contractual provisions, and will depend on, among other factors, our results of operations, financial condition, capital requirements and other factors that our Board of Directors deems relevant. As a result, investors in our common shares should expect to receive a return on investment only if the market price of the common shares increases, which may never occur.

One of the manners in which we may seek to grow our company is through acquisition or combination transactions. It is possible that, even after our announcement of a potential acquisition or combination transaction, such transactions may not ultimately close and occur. Our announcement of these potential transactions, and the occasional failure of them to occur, may cause the price of our common stock to be volatile.

In prior reports, we have publicly announced our intention to grow our company both organically, including by expanding our specialty finance operations into new markets or niches, and through acquisition or combination transactions such as mergers. In the past, we have announced our execution of non-binding letters of intent for these kinds of acquisition or combination transactions. These announcements may create volatility in the trading volume and price of our common stock, in particular when there is not significant publicly available information about the counterparty to such a transaction. Moreover, the failure of the transactions contemplated in these announcements to close could similarly create volatility in the trading volume and price of our common stock. This volatility could ultimately mean that there are fewer buyers or sellers of our common stock at particular times, which creates the risk that you might not be able to sell any common stock of our company that you own at a time or a price that you believe is fair or desirable.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no securities or industry analysts commence coverage of our company, the trading price for our stock may be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price may decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 1C. CYBERSECURITY

We review cybersecurity risk as part of our overall risk-management program. This ensures that cybersecurity risk management remains a meaningful priority in our business strategy and operations. Our risk management strategy for cybersecurity generally includes:

- *Identification:* We aim to proactively identify the manners in which our business could be materially impacted by cybersecurity risks.
- *Assessment:* We periodically assess our risks relating to cybersecurity threats, including risks relating to our reliance on third parties. In so doing, we consider the likelihood and impact that could result from the manifesting of such risks, together with the sufficiency of existing policies, procedures, systems, and safeguards in place to manage such risks.
- *Management:* If deemed appropriate, we design and implement reasonable safeguards to address any identified gaps in our existing processes and procedures.

We presently do not engage third parties to assist with evaluating the effectiveness of our risk-management and cybersecurity practices. The Company did not have any material cybersecurity breaches during the year ended December 31, 2023.

Our criteria for determining the materiality of cybersecurity incidents includes assessing potential or actual financial impacts, reputational damage, and operational disruptions. In the event of a cybersecurity incident, all material and known facts would be recorded, including their nature, scope and financial implications; and Form 8-K filings required in relation to any material cybersecurity incident would be prepared and timely filed (with any reasons for delayed disclosures being documented in writing). The Company believes these steps will help ensure compliance with SEC requirements and maintain overall stakeholder confidence in the Company.

The Audit Committee of our Board of Directors is the governance body involved in, and ultimately responsible for, cybersecurity oversight. They will generally coordinate with our Chief Financial Officer in this regard. If needed, the full Board would be updated on cybersecurity risks and incidents. None of our directors on the Audit Committee nor our Chief Financial Officer have particular experience in cybersecurity matters.

In the event of a cybersecurity concern or event, our incident response approach would have our Chief Financial Officer report to our Audit Committee and full Board of Directors, as well as legal counsel.

ITEM 2 PROPERTIES

Our executive offices are located at 1907 Wayzata Boulevard, Suite 205, Wayzata, Minnesota 55391, and our telephone number is: (952) 479-1923. We are parties to two operating leases for office space expiring May 31, 2024. These leases do not have significant lease escalations, holidays, concessions, leasehold improvements, or other build-out clauses; and they do not contain contingent-rent provisions. The leases do not include options to renew. We consider our current office space adequate for our current operations.

ITEM 3 LEGAL PROCEEDINGS

There is no material litigation, arbitration or governmental proceeding currently pending against us or any members of our management team in their capacity as such.

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PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed for trading on the Nasdaq under the symbol "MCVT". The transfer agent and registrar for our common stock is Pacific Stock Transfer Company, 6725 Via Austi Parkway, Suite 300, Las Vegas, NV 89119. The following table sets forth the high and low bid prices for our common stock as reported by the OTCQB from January 1, 2021 through August 30, 2022 and as reported on the Nasdaq Capital Market from September 1, 2022 through December 31, 2022. The quotations for prices during our listing on the OTCQB reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. Trading in our common stock during our listing on the OTCQB was generally infrequent, exemplified by low trading volume and many days during which no trades occurred.

Period	Market Price (High/Low) 2023	Market Price (High/Low) 2022
First Quarter	\$ 2.54 – 2.02	\$ 5.00 – 200
Second Quarter	\$ 2.44 - 2.17	\$ 4.55 – 2.20
Third Quarter	\$ 3.58 - 2.09	\$ 4.32 – 1.84
Fourth Quarter	\$ 3.59 - 2.22	\$ 2.73 – 1.81

Holders

As of the date of this filing, we had approximately 253 holders of record of our common stock.

Dividends

The company does not expect that the Board of Directors will declare any cash dividends in the foreseeable future.

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Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	670,000	\$ 2.11	30,000
Equity compensation plans not approved by security holders	—	—	—
Total	670,000	\$ 2.11	30,000

The securities reflected in column (a) above were issued pursuant to the company's 2022 Stock Incentive Plan.

Recent Sales of Unregistered Securities

In April 2022, the Company issued an aggregate of 28,889 shares of restricted stock to directors and executive officers. Under their terms, the shares vest on the one-year anniversary of their issuance and, until such time, remain subject to forfeiture. These shares were issued in a private offering exempt from registration under Section 4(a)(2) the Securities Act of 1933. No proceeds were received in connection with the issuance of these restricted shares, as they were issued for compensatory purposes.

In September 2022, the Company issued an aggregate of 25,448 shares of restricted stock to certain directors and executive officers. These shares were issued in a private offering exempt from registration under Section 4(a)(2) the Securities Act of 1933, and were issued for in lieu of cash compensation owing to such individuals.

In September 2022, the Company issued an aggregate of 6,667 shares of restricted stock to certain employees of the company. Under their terms, the shares vest on the three-year anniversary of their issuance and, until such time, are subject to forfeiture. These shares were issued in a private offering exempt from registration under Section 4(a)(2) the Securities Act of 1933. No proceeds were received in connection with the issuance of these restricted shares, as they were issued for compensatory purposes.

In November and December 2022, the Company issued options for the purchase of an aggregate of 870,000 shares of common stock to officers, directors and employees of, and consultants to, the Company contemporaneously with the adoption of a 2022 Stock Incentive Plan. These option grants were made subject to subsequent shareholder approval of the 2022 Stock Incentive Plan in accordance with Nasdaq rules. The options were granted pursuant to Section 4(a)(2) of the Securities Act of 1933 and other applicable exemptions. The shareholders of the company subsequently approved the 2022 Stock Incentive Plan on January 20, 2023 at a special meeting of shareholders called for that purpose. Options for 200,000 of these common shares were subsequently exercised, and the common shares issued, in September 2023.

Recent Purchases of Securities

None.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below should be read in conjunction with our audited financial statements, and notes thereto, filed together with this Form 10-K.

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report may constitute "forward-looking statements" for purposes of federal securities laws. Our forward-looking statements include, but are not limited to, statements regarding our or our management team's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predict," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

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The forward-looking statements contained in this report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described in the "Risk Factors" section of this report and those summarized below:

- our being a company with little operating history;
- our ability to select appropriate specialty finance investment opportunities;
- our expectations around the performance of borrowers in which we invest;
- our success in retaining our officers and directors, or replacing them in the event we lose their services;
- actual and potential conflicts of interest involving our directors or management team;
- our ability to obtain additional financing, if needed and on acceptable terms;
- our ability to source quality prospective borrowers for our specialty finance solutions;
- our ability to consummate transactions due to the uncertainty resulting from unpredictable events such as terrorist attacks, natural disasters or other significant outbreaks of infectious diseases;
- the dependence of our 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 regulatory structure and tax treatment;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, we receive from our investments;
- our overall financial performance and financial condition following this offering;
- our public securities' potential liquidity and trading price;
- the lack of a market for our securities; and
- the other risks and uncertainties discussed in "Risk Factors" and elsewhere in this report.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in our forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Results of Operations

	For the Year Ended December 31,	
	2023	2022
Investment Income:		
Interest Income	\$ 3,298,635	\$ 4,199,453
Operating Expenses:		
General Operating Expenses	149,708	140,993
Legal and Accounting Expenses	761,525	1,592,218
Executive Management Compensation	1,848,393	941,590
Insurance Expense	108,039	111,110
Director's Fees	772,968	417,073
Interest Expense	78,000	195,893

Total Operating Expenses	3,718,633	3,398,877
Net Investment Gain (Loss)	\$ (419,998)	\$ 800,576

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For the year ended December 31, 2023, we earned \$2,836,060 from 26 different short-term loans; and an aggregate of \$462,575 in related origination fees.

For the year ended December 31, 2022, we earned \$3,397,443 from 31 different short-term loans; and an aggregate of \$802,010 in related origination fees.

As the table above indicates, we incurred operating expenses aggregating \$3,718,633 for the year ended December 31, 2023, and \$3,398,877 for the year ended December 31, 2022. A summary of the various components of our operating expenses for these periods is set forth below.

General Operating Expenses. Our general operating expenses were \$149,708 for the year ended December 31, 2023 and \$140,993 for the year ended December 31, 2022. The increase in the current period is primarily related to higher fees incurred in relation to the unused portion on our line of credit (see Liquidity and Capital Resources below for more information).

Legal and Accounting Expenses. Our legal and accounting expenses were \$761,525 for the year ended December 31, 2023 and \$1,592,218 for the year ended December 31, 2022. The decrease in the current period is primarily related to a decrease in legal, consulting and marketing costs incurred.

Executive Management Compensation. Our executive management compensation was \$1,848,393 for the year ended December 31, 2023 and \$941,590 for the year ended December 31, 2022. The increase in 2023 over 2022 is due to a stock option issuance recognized in January 2023.

Director's Fees. Our director's fees were \$772,968 for the year ended December 31, 2023 and \$417,073 for the year ended December 31, 2022. The increase in 2023 over 2022 is due to a stock option issuance recognized in January 2023.

Interest Expense. Our interest expense was \$78,000 for the year ended December 31, 2023 and \$195,893 for the year ended December 31, 2022. The 2023 decrease from 2022 is due to a lower use of the line of credit arrangement we entered into in 2022 (see Liquidity and Capital Resources below for more information).

For the year ended December 31, 2023 our net investment loss was \$419,998. For the year ended December 31, 2022, our net investment gain was \$800,576. The increased net investment loss during 2023 was primarily the result of the stock option issuance and recognition in January 2023 that was primarily to our officers and directors, in addition to lower interest income earned during the course of 2023, including related origination fees.

Financial Condition

At December 31, 2023, we had an increase in net assets of \$718,703 as compared to December 31, 2022. This increase in net assets was primarily due to the issuance and exercise of stock options, partially offset by the decrease in the fair value of our investments and reduced cash and cash equivalents. Our net assets increased by \$4,457,511 at December 31, 2022 as compared to December 31, 2021, due to the capital we raised during our August 2022 public offering and an increase in our interest income earned from the short-term loans we provided.

Liquidity and Capital Resources

Summary cash flow data is as follows:

	For the Year Ended December 31,	
	2023	2022
Cash flows provided (used) by:		
Operating activities	\$ (1,137,617)	\$ (4,888,302)
Financing activities	424,000	4,041,795
Net decrease in cash	(713,617)	(846,507)
Cash, beginning of period	1,089,641	1,936,148
Cash, end of period	\$ 376,024	\$ 1,089,641

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On January 3, 2022, we entered into a Loan and Security Agreement (the "Loan Agreement") with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust. The Loan Agreement provided us with a \$5 million revolving line of credit to use in the ordinary course of our short-term specialty finance business. Amounts drawn under the Loan Agreement accrued interest at the per annum rate of 8%, and all our obligations under the Loan Agreement were secured by a grant of a collateral security interest in substantially all of our assets. In January 2024, we terminated the Loan Agreement after having earlier satisfied all amounts thereunder. Any applicable fees for early termination of the Agreement were waived.

During the course of 2023, the Loan Agreement, together with our cash and cash equivalents, were our primary sources of liquidity. With the termination of the Loan Agreement, however, our cash and cash equivalents are our remaining sources of liquidity as of the date of this report. In addition, we expect that some of our investment positions will mature, resulting in additional available cash. Management believes that these sources of liquidity, will be sufficient for the Company to fund its operations through the entirety of fiscal 2024. Accordingly, at present we have no definitive plans to obtain other sources of liquidity through borrowing or otherwise.

Investment Activity

In 2023, we made new investments aggregating \$12,900,500, and refinanced or otherwise extended the term to maturity of investments aggregating \$10,857,500. Of these amounts, \$5 million were initially loaned to Mustang Funding, LLC in 2023, and another of \$5 million earlier loaned in 2022 was refinanced, such that we had an aggregate of \$10 million invested in Mustang Funding, LLC at December 31, 2023, all of which was due to mature at May 31, 2024.

In 2023, we also wrote-down (i.e., reduced the fair market value of our short-term loans) an aggregate of \$935,000 of our investments in preferred stock and \$345,421 in one of our short-term loan investments. In general, these write-downs occurred due to our judgment that some aspect of our investment was no longer likely collectible in full on account of the borrower's financial condition, prospects, or

both. The write-downs were offset by an increase in market valuations of our remaining short-term loan portfolio as well as market changes in our common stock and other equity holdings, resulting in a net change in unrealized depreciation of \$641,433 as reflected in the statement of operations.

Capital Expenditures

We did not have any material commitments for capital expenditures in fiscal 2023 and we do not anticipate any such capital expenditures for fiscal 2024.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, nor are we a party to any contract or other obligation not included on its balance sheet that has, or is reasonably likely to have, a current or future effect on our financial condition.

Critical Accounting Policies

Critical accounting policies are policies that are both most important to the portrayal of the Company's financial condition and results, and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to investment valuation and interest and dividend income as an investment company.

Investment Valuation

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

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by our Board of Directors, based on, among other things, the input of our executive management, the Audit Committee of our Board of Directors and any independent third-party valuation expert that may be engaged by management to assist in the valuation of our portfolio investments. Valuation determinations are in all cases made in conformity with the written valuation policies and procedures respecting the valuation of company investments.

Use of Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The application of GAAP requires that we make estimates that affect our reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of investment income and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates.

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders' of Mill City Ventures III, Ltd.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Mill City Ventures III, Ltd. (the Company) as of December 31, 2023 and 2022, including the investment schedules and the related statements of operations, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2023, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Matter – Investment Valuation

As explained in Note 7 to the financial statements, the accompanying financial statements include investments valued at \$17,284,676 and \$16,708,432 as of December 31, 2023 and 2022, respectively, whose fair values have been estimated by management in absence of readily determinable fair values. Such estimates are based on financial and other information provided by management of its portfolio companies and pertinent market and industry data. The investments are valued based on unobservable inputs as of December 31, 2023 and 2022. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate significantly over short periods of time. These determinations of fair value could differ materially from the values that would have been utilized had a ready market for these investments existed.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

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Description of the Matter

Valuation of investments which utilize significant unobservable inputs

At December 31, 2023, the balances of the Company's investments, at fair value, categorized as Level 3 within the fair value hierarchy totaled \$17,236,766. The fair values of these investments are determined by management using the valuation techniques and significant unobservable inputs described in Notes 6 and 7 to the financial statements.

Auditing the fair value of the Company's investments categorized as Level 3 within the fair value hierarchy was complex and involved a high degree of auditor subjectivity and judgement due to the estimation uncertainty resulting from the unobservable nature of the inputs used in the valuations and the limited number of comparable market transactions for the same or similar investments.

How We Addressed the Matter in Our Audit

We obtained an understanding and evaluated the design of controls over the Company's valuation process, including management's assessment of the significant inputs and estimates used in the fair value measurements.

We performed the following procedures, among others, for the Company's Level 3 investments:

- We evaluated the valuation techniques used by the Company and considered the consistency in application of the valuation techniques to each subject investment and investment class. We also consulted with our valuation specialist to ascertain that the Company's valuation method was widely accepted.
- We assigned senior, more experienced audit team members to perform audit procedures related to the valuation of investments.
- We evaluated the reasonableness of the significant unobservable inputs by comparing the inputs used by the Company to third-party sources, if available, such as market indexes or other market data.

- We considered the other information obtained during the audit that corroborated or contradicted the Company's inputs or fair value measurements.
- For investments sold during the year or subsequent to year-end, we compared the transaction price to the Company's fair value estimate to assess the reasonableness of management's fair value estimates.

/s/ Boulay PLLP

We have served as the Company's auditor since 2019.

Minneapolis, Minnesota
April 1, 2024

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Mill City Ventures III, Ltd.
Balance Sheets

	December 31, 2023	December 31, 2022
ASSETS		
Investments, at fair value (cost: \$18,577,481 and \$17,359,804, respectively)	\$ 17,284,676	\$ 16,708,432
Cash	376,024	1,089,641
Note receivable, related party	250,000	250,000
Prepaid expenses	165,301	218,440
Interest and dividend receivables	264,413	250,879
Right-of-use operating lease asset	9,283	16,398
Deferred taxes	757,000	201,000
Total Assets	\$ 19,106,697	\$ 18,734,790
LIABILITIES		
Accounts payable	\$ 71,702	\$ 136,514
Accrued payroll liabilities	435,449	640,000

Operating lease liability	9,283	16,562
Deferred interest income	—	70,154
Total Liabilities	516,434	863,230
Commitments and Contingencies		
SHAREHOLDERS EQUITY (NET ASSETS)		
Common stock, par value \$0.001 per share (111,111,111 authorized; 6,385,255 and 6,185,255 issued and outstanding)	6,385	6,185
Additional paid-in capital	15,473,121	15,049,321
Additional paid-in capital - stock options	1,460,209	—
Accumulated deficit	(1,159,665)	(1,159,665)
Accumulated undistributed investment loss	(1,052,183)	(1,086,739)
Accumulated undistributed net realized gains on investment transactions	5,155,200	5,713,829
Net unrealized depreciation in value of investments	(1,292,804)	(651,371)
Total Shareholders' Equity (Net Assets)	18,590,263	17,871,560
Total Liabilities and Shareholders' Equity	\$ 19,106,697	\$ 18,734,790
Net Asset Value Per Common Share	\$ 2.91	\$ 2.89

The accompanying notes are an integral part of these financial statements.

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Mill City Ventures III, Ltd.
Statements of Operations

	Year Ended	
	December 31, 2023	December 31, 2022
Investment Income		
Interest income	\$ 3,298,635	\$ 4,199,453
Total Investment Income	<u>3,298,635</u>	<u>4,199,453</u>
Operating Expenses		
Professional fees	761,525	1,592,218
Payroll	1,848,393	941,590
Insurance	108,039	111,110
Occupancy	68,421	73,146
Director's fees	772,968	417,073
Interest expense	78,000	195,893
Other general and administrative	81,287	67,847
Total Operating Expenses	<u>3,718,633</u>	<u>3,398,877</u>
Net Investment Gain (Loss)	<u>(419,998)</u>	<u>800,576</u>
Realized and Unrealized Gain (Loss) on Investments		

Net realized gain (loss) on investments	(558,629)	133,019
Net change in unrealized depreciation on investments	(641,433)	(816,989)
Net Realized and Unrealized Loss on Investments	(1,200,062)	(683,970)
Net Increase (Decrease) in Net Assets Resulting from Operations Before Taxes	(1,620,060)	116,606
Provision For (Benefit From) Income Taxes	(454,554)	9,648
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (1,165,506)	\$ 106,958
Net Increase (Decrease) in Net Assets Resulting from Operations per share:		
Basic and diluted	\$ (0.18)	\$ 0.02
Weighted-average number of common shares outstanding - basic and diluted	6,249,913	5,333,028

The accompanying notes are an integral part of these financial statements.

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Mill City Ventures III, Ltd.
Statements of Shareholders' Equity

Year Ended December 31, 2023	Common Shares	Par Value	Additional Paid In Capital	Accumulated Deficit	Investment Loss	Accumulated Undistributed Net Investment Loss	Accumulated Undistributed Net Realized Gain (Loss) on Investment Transactions	Net Unrealized Depreciation in value of Investments	Total Shareholders' Equity
Balance as of December 31, 2022	6,185,255	\$ 6,185	\$ 15,049,321	\$ (1,159,665)	\$ (1,086,739)	\$ 5,713,829	\$ (651,371)	\$ 17,871,560	
Stock-based compensation	—	—	1,460,209	—	—	—	—	—	1,460,209
Exercise of stock options	200,000	200	423,800	—	—	34,556	—	—	424,000
Undistributed net investment gain	—	—	—	—	34,556	—	—	—	34,556
Undistributed net realized loss on investment transactions	—	—	—	—	—	(558,629)	—	—	(558,629)
Depreciation in value of investments	—	—	—	—	—	—	(641,433)	(641,433)	
Balance as of December 31, 2023	6,385,255	\$ 6,385	\$ 16,933,330	\$ (1,159,665)	\$ (1,052,183)	\$ 5,155,200	\$ (1,292,804)	\$ 18,590,263	

Year Ended December 31, 2022	Common Shares	Par Value	Additional Paid In Capital	Accumulated Deficit	Accumulated Undistributed Net Investment Loss	Accumulated Undistributed Net Realized Gain on Investment Transactions	Net Unrealized Appreciation (Depreciation) in value of Investments	Total Shareholders' Equity
Balance as of December 31, 2021	4,795,739	\$ 4,760	\$ 10,700,193	\$ (1,159,665)	\$ (1,877,667)	\$ 5,580,810	\$ 165,618	\$ 13,414,049
Common shares issued in public offering net of underwriting costs and warrants	1,250,000	1,250	3,839,372	—	—	—	—	3,840,622
Warrants issued to underwriter			201,173					201,173
Common shares issued in reverse stock split rounding	735	—	—					—
Common shares issued in stock-based compensation	61,004	97	149,218	—	—	—	—	149,315
Common shares issued in consideration for expense payment	77,777	78	159,365	—	—	—	—	159,443
Undistributed net investment gain	—	—	—	—	790,928	—	—	790,928
Undistributed net realized gain on investment transactions	—	—	—	—	—	133,019	—	133,019
Depreciation in value of investments	—	—	—	—	—	—	(816,989)	(816,989)
Balance as of December 31, 2022	6,185,255	\$ 6,185	\$ 15,049,321	\$ (1,159,665)	\$ (1,086,739)	\$ 5,713,829	\$ (651,371)	\$ 17,871,560

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd.
Statements of Cash Flows

	Year Ended	
	December 31, 2023	December 31, 2022
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	\$ (1,165,506)	\$ 106,958
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized depreciation on investments	641,433	816,989
Net realized (gain) loss on investments	558,629	(133,019)
Purchases of investments	(12,900,500)	(23,558,458)
Proceeds from sales of investments	11,124,194	20,264,731
Stock-based compensation	1,460,209	—
Deferred income taxes	(556,000)	(246,000)
Stock-based compensation to employees and vendors	—	308,758
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	60,254	(146,180)
Interest and dividends receivable	(13,534)	73,471
Payable for investment purchase	—	(1,900,000)
Accounts payable and other liabilities	(276,642)	723,294
Deferred interest income	(70,154)	70,154
Accrued income taxes	—	(1,269,000)
Net cash used in operating activities	<u>(1,137,617)</u>	<u>(4,888,302)</u>
Cash flows from financing activities:		
Proceeds from public offering, net of underwriting discounts and offering costs	—	4,041,795
Proceeds from stock option exercise	424,000	—
Proceeds from line of credit	2,750,000	9,793,800
Repayments on line of credit	(2,750,000)	(9,793,800)
Net cash provided by financing activities	<u>424,000</u>	<u>4,041,795</u>
Net decrease in cash		
Cash, beginning of period	—	(846,507)
Cash, end of period	\$ 376,024	\$ 1,089,641
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ —	\$ 428,948
Cash paid for interest	\$ 78,000	\$ 195,894

The accompanying notes are an integral part of these financial statements.

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Mill City Ventures III, Ltd.
Investment Schedule
As of December 31, 2023

Investment / Industry	Cost	Fair Value	Percentage of Net Assets
Short-Term Non-banking Loans			
Business Services - 15% secured loans			
Mustang Litigation Funding	\$ 10,000,000	\$ 10,069,354	54.16%
Consumer - 23% secured loans			
Intelligent Mapping, LLC	2,900,000	2,906,464	15.63%
Financial - 12% secured loans	500,000	-	0.00%
Information Technology - 15% convertible note	232,500	213,501	1.15%
Real Estate - 18% secured loans	745,000	760,119	4.09%
Tailwind, LLC	1,000,000	1,001,954	5.39%
Real Estate - 12% secured loans			
Alatus Development Corp	2,000,000	2,010,374	10.81%
Total Short-Term Non-Banking Loans	<u>17,357,500</u>	<u>16,961,766</u>	<u>91.23%</u>
Preferred Stock			
Consumer			
Wisdom Gaming, Inc	900,000	265,000	1.43%
Information Technology	150,000	-	0.00%
Total Preferred Stock	<u>1,050,000</u>	<u>265,000</u>	<u>1.43%</u>
Common Stock			
Consumer	159,302	47,910	0.26%
Warrants			
Healthcare	679	—	0.00%
Other Equity			

Financial	<u>10,000</u>	<u>10,000</u>	<u>0.05%</u>
Total Investments	<u>\$ 18,577,481</u>	<u>\$ 17,284,676</u>	<u>92.97%</u>
Total Cash	<u>376,024</u>	<u>376,024</u>	<u>2.02%</u>
Total Investments and Cash	<u>\$ 18,953,505</u>	<u>\$ 17,660,700</u>	<u>94.99%</u>

The accompanying notes are an integral part of these financial statements.

Mill City Ventures III, Ltd.
Investment Schedule
As of December 31, 2022

Investment / Industry	Cost	Fair Value	Percentage of Net Assets
Short-Term Non-banking Loans			
Business Services - 18% secured loans	\$ 2,250,000	\$ 2,255,625	12.62%
Liberated Syndication Inc.			
Business Services - 15% secured loans	5,000,000	4,975,955	27.84%
Mustang Litigation Funding	400,000	398,635	2.23%
Consumer - 15% secured loans	2,900,000	2,873,893	16.08%
Intelligent Mapping, LLC			
Financial - 33% secured loans	2,479,125	2,478,030	13.87%
Benton Financial, LLC	500,000	345,421	1.93%
Financial - 12% secured loans	212,500	213,656	1.20%
Information Technology - 15% convertible note	745,000	746,354	4.17%
Real Estate - 15% secured loans	1,000,000	998,363	5.59%
Real Estate - 12% secured loans	15,486,625	15,285,932	85.53%
Total Short-Term Non-Banking Loans			
Preferred Stock			
Consumer			
Wisdom Gaming, Inc	900,000	900,000	5.04%
Information Technology	150,000	300,000	1.68%
Total Preferred Stock	1,050,000	1,200,000	6.72%
Warrants			
Healthcare	679	—	0.00%
Other Equity			
Consumer	212,500	212,500	1.19%
Financial	610,000	10,000	0.06%
Total Other Equity	822,500	222,500	1.25%
Total Investments	\$ 17,359,804	\$ 16,708,432	93.50%
Total Cash	\$ 1,089,641	\$ 1,089,641	6.10%
Total Investments and Cash	\$ 18,449,445	\$ 17,798,073	99.60%

The accompanying notes are an integral part of these financial statements.

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NOTE 1 — ORGANIZATION

In this report, we generally refer to Mill City Ventures III, Ltd. in the first person "we." On occasion, we refer to our company in the third person as "Mill City Ventures" or the "Company." The Company follows accounting and reporting guidance in Accounting Standards ("ASC") Topic 946 "Financial Services – Investment Companies".

We were incorporated in Minnesota in January 2006. Until December 13, 2012, we were a development-stage company that focused on promoting and placing a proprietary poker game online and into casinos and entertainment facilities nationwide. In 2013, we elected to become a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). We operated as a BDC until we withdrew our BDC election at the end of December 2019. Since that time, we have remained a public reporting company filing periodic reports with the SEC. We engage in the business of providing short-term specialty finance solutions, typically in the form of short-term loans, primarily to small businesses, both private and public, and high-net-worth individuals. To avoid regulation under the 1940 Act, we generally seek to structure our investments so they do not constitute "securities" for purposes of federal securities laws, and we monitor our investments as a whole to ensure that no more than 40% of our total assets consist of "investment securities" as defined under the 1940 Act.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates: The preparation of financial statements in conformity with GAAP requires management and our independent board members to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. For more information, see the "Valuation of portfolio investments" caption below, and "Note 7 – Fair Value of Financial Instruments" below. The Company presents its financial statements as an investment company following accounting and reporting guidance in ASC 946.

The presentation of certain items in the financial statements for the year ended December 31, 2022, has been changed to conform to the classifications used in 2023. These reclassifications had no effect on shareholders' equity or net increase in net assets as previously recorded.

Cash deposits: We maintain our cash balances in financial institutions and with regulated financial investment brokers. Cash on deposit in excess of FDIC and similar coverage is subject to the usual banking risk of funds in excess of those limits.

Valuation of portfolio investments: We carry our investments in accordance with ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"), issued by the Financial Accounting Standards Board ("FASB"), which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. Fair value is generally based on quoted market prices provided by independent pricing services, broker or dealer quotations, or alternative price sources. In the absence of quoted market prices, broker or dealer quotations, or alternative price sources, investments are measured at fair value as determined by the our Board of Directors based on, among other things, the input of our executive management, the Audit Committee of our Board of Directors, and any independent third-party valuation experts that may be engaged by management to assist in the valuation of our portfolio investments, but in all cases consistent with our written valuation policies and procedures.

Due to the inherent uncertainties of valuation, certain estimated fair values may differ significantly from the values that would have been realized had a ready market for these investments existed, and these differences could be material. In addition, such investments are generally less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

Accounting guidance establishes a hierachical disclosure framework that prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Observable inputs must be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability based upon the best information available. Assets and liabilities measured at fair value are to be categorized into one of the three hierarchy levels based on the relative observability of inputs used in the valuation. The three levels are defined as follows:

- **Level 1:** Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Observable inputs based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.
- **Level 3:** Unobservable inputs that reflect an entity's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

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Our valuation policy and procedures: Under our valuation policies and procedures, we evaluate the source of inputs, including any markets in which our investments are trading, and then apply the resulting information in determining fair value. For our Level 1 investment assets, our valuation policy generally requires us to use a market approach, considering the last quoted closing price of a security we own that is listed on a securities exchange, and in a case where a security we own is listed on an over-the-counter market, to average the last quoted bid and ask price on the most active market on which the security is quoted. In the case of traded debt securities the prices for which are not readily available, we may value those securities using a discounted cash flows approach, at their weighted-average yield to maturity.

The estimated fair value of our Level 3 investment assets is determined on a quarterly basis by our Board of Directors. In general, we value our Level 3 equity investments at cost unless circumstances warrant a different approach. Examples of these circumstances includes a situation in which a portfolio company has engaged in a subsequent financing of more than a *de minimis* size involving sophisticated investors (in which case we may use the price involved in that financing as a determinative input absent other known factors), or when a portfolio company is engaged in the process of a transaction that we determine is reasonably likely to occur (in which case we may use the price involved in the pending transaction as a determinative input absent other known factors). Other facts and circumstances that may serve as an input supporting a change in the valuation of our Level 3 equity investments include (i) a third-party valuation conducted by an independent and qualified professional, (ii) changes in the performance of long-term financial prospects of the portfolio company, (iii) a subsequent financing that changes the distribution rights associated with the equity security we hold, or (iv) sale transactions involving comparable companies, but only if further supported by a third-party valuation conducted by an independent and qualified professional.

When valuing preferred equity investments, we generally view intrinsic value as a key input. Intrinsic value means the value of any conversion feature (if the preferred investment is convertible) or the value of any liquidation or other preference. Discounts to intrinsic value may be applied in cases where the issuer's financial condition is impaired or, in cases where intrinsic value relating to a conversion is determined to be a key input, to account for resale restrictions applicable to the securities issuable upon conversion.

When valuing warrants, our valuation policy and procedures indicate that value will generally be the difference between the closing price of the underlying equity security and the exercise price, after applying an appropriate discount for restriction, if applicable, in situations where the underlying security is marketable. If the underlying security is not marketable, then intrinsic value will be considered consistent with the principles described above. Generally, "out-of-the-money" warrants will be valued at cost or zero.

For non-traded (Level 3) debt instruments with a residual maturity less than or equal to 60 days, we will generally value such instruments based on a discounted cash flows approach, considering the straight-line amortized face value of the debt unless justification for impairment exists. For level 3 non-banking loans with a maturity in excess of 60 days, fair value is determined based on the initial purchase price and adjusted as necessary to reflect any changes in the financial strength of the creditor and changes in interest rates in the high-yield credit markets.

On a quarterly basis, our management provides members of our Board of Directors with recommendations, if any, to change any existing valuations of our portfolio investments or hierarchy levels for purposes of determining the fair value of such investments based upon the foregoing. In such a case, the Board of Directors would then discuss these materials and, consistent with the policies and approaches outlined above, makes final determinations respecting the valuation and hierarchy levels of our portfolio investments.

We made no changes to our valuation policy and procedures during the reporting period.

Income taxes: We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect for the tax year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income for the period that includes the enactment date.

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We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and recent financial operations. In the event we were to determine we would not be able to realize our deferred income tax assets, we would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months. Our evaluation was performed for the tax years ended December 31, 2020 through 2022, which are the tax years that remain subject to examination by the tax jurisdictions as of December 31, 2023.

Revenue recognition: Realized gains or losses on the sale of investments are calculated using the specific investment method.

Interest income, adjusted for amortization of premiums and accretion of discounts, is recorded on an accrual basis. Discounts from and premiums to par value on securities purchased are accreted or amortized, as applicable, into interest income over the life of the related security using the effective-yield method. The amortized cost of investments represents the original cost, adjusted for the accretion of discounts and amortization of premiums, if any. Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more, or when there is reasonable doubt that principal or interest will be collected in full. Loan origination fees are recognized when loans are issued. Accrued and unpaid interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past-due principal and interest is paid and, in management's judgment, are likely to remain current. We may make exceptions to the policy described above if a loan has sufficient collateral value and is in the process of collection.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

Certain investments may have contractual payment-in-kind ("PIK") interest or dividends. PIK represents accrued interest or accumulated dividends that are added to the loan principal or stated value of the investment on the respective interest- or dividend-payment dates rather than being paid in cash, and generally becomes due at maturity or upon being repurchased by the issuer. PIK interest or dividends is recorded as interest or dividend income, as applicable. If at any point we believe that PIK interest or dividends is not expected to be realized, the PIK-generating investment will be placed on non-accrual status. Accrued PIK interest or dividends are generally reversed through interest or dividend income, respectively, when an investment is placed on non-accrual status.

Allocation of net gains and losses: All income, gains, losses, deductions and credits for any investment are allocated in a manner proportionate to the shares owned.

Stock-based compensation: The Company's stock-based compensation consists of stock options issued to certain employees and directors of the Company. The Company recognizes compensation expense based on an estimated grant date fair value using the Black Scholes option-pricing method. If the factors change and different assumptions are used, the Company's stock-based compensation expense could be materially different in the future. The Company recognizes stock-based compensation expense for these options on a straight-line basis over the requisite service period. The Company has elected to account for forfeitures as they occur.

Management and service fees: We do not incur expenses related to management and service fees. Our executive management team manages our investments as part of their employment responsibilities.

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NOTE 3 — NET GAIN (LOSS) PER COMMON SHARE

Basic net gain (loss) per common share is computed by dividing net increase (decrease) in net assets resulting from operations by the weighted-average number of common shares outstanding during the period. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net gain per common share follows:

	For the Year Ended December 31,	
	2023	2022
Numerator: Net increase (decrease) in net assets resulting from operations	\$ (1,165,506)	\$ 106,958
Denominator: Weighted-average number of common shares outstanding	6,249,913	5,333,028
Basic and diluted net gain (loss) per common share	\$ (0.18)	\$ 0.02

At December 31, 2023 and 2022, the Company did not have any options or warrants outstanding or any other dilutive common equivalent shares other than conditional option grants (for an aggregate of 870,000 shares of common stock) that were, at December 31, 2022, unexercisable and subject to voiding in the absence of shareholder approval of the related 2022 Stock Incentive Plan. The Company's shareholders subsequently approved the plan on January 20, 2023 at a special meeting of shareholders called for that purpose. At December 31, 2023, options issued under the plan for the purchase of 670,000 common shares remained outstanding. For the year ended December 31, 2023, the common shares underlying the stock options have been excluded from the calculation because their effect would be anti-dilutive. Therefore, the weighted-average shares outstanding used to calculate both basic and diluted loss per common share are the same.

NOTE 4 — LEASES

We are subject to two non-cancelable operating leases for office space expiring May 31, 2024. These leases do not have significant payment escalations, holidays, concessions, leasehold improvements, or other build-out clauses. Further, the leases do not contain contingent rent provisions. The leases do not include options to renew.

Because our lease does not provide an implicit rate, we use our incremental borrowing rate in determining the present value of the lease payments. The incremental borrowing rate represents an estimate of the interest rate we would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease. The weighted-average discount rate as of December 31, 2023 and December 31, 2022 was 4.5% and the weighted-average remaining lease term was less than one year, and one year, respectively.

Rent expense for office facilities for the year ended December 31, 2023 and 2022 was \$ 68,421 and \$73,146, respectively.

The components of our operating leases were as follows for the years ended December 31:

	2023	2022
Operating lease costs	\$ 21,975	\$ 21,291
Variable lease cost	19,572	18,325
Short-term lease cost	26,874	33,530
Total	\$ 68,421	\$ 73,146

Supplemental balance sheet information consisted of the following at December 31:

	2023	2022
Operating Lease Right-of-use assets	\$ 9,283	\$ 16,398
Operating Lease Liability	\$ 9,283	\$ 16,562
Less: short term portion	(9,283)	(16,562)
Long term portion	\$ —	\$ —

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Maturity analysis under lease agreements consisted of the following as of December 31:

	2023	2022
2023	\$ —	\$ 16,675
2024	\$ 9,353	\$ —
Total lease payments	9,353	16,675
Less: Present value discount	(70)	(113)
Present value of lease liabilities	<u>\$ 9,283</u>	<u>\$ 16,562</u>

Supplemental cash flow information related to leases for the years ended December 31:

	2023	2022
Operating cash outflow from operating leases	\$ 69,743	\$ 75,146

NOTE 5—SHAREHOLDERS' EQUITY

At December 31, 2023 a total of 6,385,255 shares of common stock were issued and outstanding. At December 31, 2022 a total of 6,185,255 shares of common stock were issued and outstanding.

On August 9, 2022, the Company effected a stock combination (reverse stock split) of its common shares on a 1-for-2.25 basis such that every 2.25 shares of common stock issued and outstanding on that date were combined into one share of common stock. Any fractional share resulting from the reverse stock split was rounded up to the nearest whole share. The reverse stock split was retroactively applied to prior periods, which reduced common stock by approximately \$6,000 as part of the reverse stock split for the reduction in common shares outstanding, and increased additional paid-in capital by approximately \$6,000 as of December 31, 2021. The reverse stock split was approved by the Company's Board of Directors in accordance with Minnesota law and resulted in a proportionate reduction in the number of authorized shares of capital stock available for issuance under the Company's articles of incorporation. This reduction was affected pursuant to the filing of articles of amendment with the Minnesota Secretary of State indicating that the Company, on a post-reverse-split basis, is authorized to issue up to 111,111,111 shares of capital stock.

On August 11, 2022, the Company completed its public offer and sale of 1,250,000 common shares pursuant to a registration statement filed with the SEC and declared effective on August 9, 2022. Shares were sold by the Company at \$4.00 per share, resulting in gross proceeds of \$ 5,000,000. As part of the registered public offering, the Company granted the underwriters a 45-day option to purchase up to 187,500 additional common shares at the offering price, less underwriting discounts which option was not exercised. In connection with the offering, the Company issued the underwriter a five-year warrant to purchase up to 75,000 common shares at the per-share price of \$ 5.00. Net proceeds to the Company after the payment of underwriting discounts, underwriting expenses, and the Company's own offering-related expenses were approximately \$4,041,000.

In connection with the public offering, the Company issued a five-year warrant to the underwriter. The warrant allows the underwriter to purchase up to 75,000 common shares at \$ 5.00 per share. This warrant is exercisable after 180 days, and expires on August 8, 2027. This warrant is equity-classified and the fair value was \$201,173 on the offering date.

During 2023 there were 200,000 shares issued related to the exercise of stock options. During 2022, there were 1,389,516 shares issued by the Company.

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NOTE 6 — INVESTMENTS

The following table shows the composition of our investment portfolio by major class, at amortized cost and fair value, as of December 31, 2023 (together with the corresponding percentage of total portfolio investments):

	As of December 31, 2023			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	\$ 17,357,500	93.4%	\$ 16,961,766	98.1%
Preferred Stock	1,050,000	5.6	265,000	1.5
Common Stock	159,302	0.9	47,910	0.3
Warrants	679	—	—	—
Other Equity	10,000	0.1	10,000	0.1
Total	\$ 18,577,481	100.0%	\$ 17,284,676	100.0%

The following table shows the composition of our investment portfolio by major class, at amortized cost and fair value, as of December 31, 2022 (together with the corresponding percentage of total portfolio investments):

	As of December 31, 2022			
	Investments at Amortized Cost	Percentage of Amortized Cost	Investments at Fair Value	Percentage of Fair Value
Short-term Non-banking Loans	\$ 15,486,625	89.2%	\$ 15,285,932	91.5%
Preferred Stock	1,050,000	6.1	1,200,000	7.2
Warrants	679	—	—	—
Other Equity	822,500	4.7	222,500	1.3
Total	\$ 17,359,804	100.0%	\$ 16,708,432	100.0%

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of December 31, 2023:

	As of December 31, 2023	
	Investments at Fair Value	Percentage of Fair Value
Business Services	\$ 10,069,354	58.3%
Consumer	3,219,374	18.6
Financial	10,000	0.1
Information Technology	213,501	1.2
Real Estate	3,772,447	21.8
Total	\$ 17,284,676	100.0%

The following table shows the composition of our investment portfolio by industry grouping, based on fair value as of December 31, 2022:

	As of December 31, 2022	
	Investments at Fair Value	Percentage of Fair Value
Business Services	\$ 7,231,580	43.3%
Consumer	4,385,028	26.2
Financial	2,833,451	17.0
Information Technology	513,656	3.1
Real Estate	1,744,717	10.4
Total	\$ 16,708,432	100.0%

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NOTE 7 — FAIR VALUE OF FINANCIAL INSTRUMENTS

Level 3 valuation information: Due to the inherent uncertainty in the valuation process, the estimate of the fair value of our investment portfolio as of December 31, 2023 and 2022 may differ materially from values that would have been used had a readily available market for the securities existed.

The following table presents the fair value measurements of our portfolio investments by major class, as of December 31, 2023, according to the fair value hierarchy:

	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Short-term Non-banking Loans	\$ —	\$ —	\$ 16,961,766	\$ 16,961,766
Preferred Stock	—	—	265,000	265,000
Common Stock	47,910	—	—	47,910
Warrants	—	—	—	—
Other Equity	—	—	10,000	10,000
Total	\$ 47,910	\$ —	\$ 17,236,766	\$ 17,284,676

The following table presents the fair value measurements of our portfolio investments by major class, as of December 31, 2022, according to the fair value hierarchy:

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Short-term Non-banking Loans	\$ —	\$ —	\$ 15,285,932	\$ 15,285,932

Preferred Stock	—	—	1,200,000	1,200,000
Warrants	—	—	—	—
Other Equity	—	—	222,500	222,500
Total	\$	—	\$ 16,708,432	\$ 16,708,432

The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the year ended December 31, 2023:

	For the year ended December 31, 2023		
	ST Non-banking Loans	Preferred Stock	Other Equity
Balance as of January 1, 2023	\$ 15,285,932	\$ 1,200,000	\$ 222,500
Net change in unrealized depreciation	(195,041)	(935,000)	600,000
Purchases and other adjustments to cost	12,900,500	—	—
Sales and redemptions	(11,029,625)	—	—
Realized gain (loss)	—	—	(600,000)
Transfers between level 3 and level 1	—	—	(212,500)
Balance as of December 31, 2023	\$ 16,961,766	\$ 265,000	\$ 10,000

The net change in unrealized depreciation for the year ended December 31, 2023 attributable to Level 3 portfolio investments still held as of December 31, 2023 is \$ 1,126,877, and is included in net change in unrealized depreciation on investments on the statement of operations.

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The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the year ended December 31, 2022:

	For the year ended December 31, 2022		
	ST Non-banking Loans	Preferred Stock	Other Equity
Balance as of January 1, 2022	\$ 11,650,000	\$ 1,200,000	\$ 812,500

Net change in unrealized depreciation	(200,693)	—	(600,000)
Purchases and other adjustments to cost	23,548,458	—	10,000
Sales and redemptions	(19,711,833)	—	—
Balance as of December 31, 2022	\$ 15,285,932	\$ 1,200,000	\$ 222,500

The net change in unrealized depreciation for the year ended December 31, 2022 attributable to Level 3 portfolio investments still held as of December 31, 2022 is \$ 651,371, and is included in net change in unrealized depreciation on investments on the statement of operations.

The following table lists our Level 3 investments held as of December 31, 2023 and the unobservable inputs used to determine their valuation:

Security Type	12/31/23 FMV	Valuation Technique	Unobservable Inputs	Range
ST Non-banking Loans	\$ 16,961,766	discounted cash flow	determining private company interest rate based on changes in market rates of instruments with comparable creditworthiness	12-23%
Other Equity	10,000	last secured funding known by company		
Preferred Stock	265,000	last funding secured by company	economic changes since last funding	
	\$ 17,236,766			

The following table presents a reconciliation of the beginning and ending fair value balances for our Level 3 portfolio investment assets for the year ended December 31, 2022:

Security Type	12/31/22 FMV	Valuation Technique	Unobservable Inputs	Range
ST Non-banking Loans	\$ 15,285,932	discounted cash flow	determining private company interest rate based on changes in market rates of instruments with comparable creditworthiness	12-33%
Other Equity	222,500	last secured funding known by company		
Preferred Stock	1,200,000	last funding secured by company	economic changes since last funding	
	\$ 16,708,432			

There was one transfer between levels during 2023 due to an initial public offering of a previously privately held security. The shares of that security are now free trading. There were no transfers between levels during the years ended December 31, 2022.

NOTE 8 – LINE OF CREDIT

On January 3, 2022, we entered into a Loan and Security Agreement (the "Loan Agreement") with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust (collectively, the "Lenders"). Mr. Berman is a director of our Company. Under the Loan Agreement, the Lenders made available to us a \$ 5 million revolving line of credit for us to use in the ordinary course of our short-term specialty finance business. Amounts drawn under the Loan Agreement accrued interest at the per annum rate of 8%, and all our obligations under the Loan Agreement were secured by a grant of a collateral security interest in substantially all of our assets.

As a Lender, Mr. Berman was obligated to furnish only one-half of the aggregate \$ 5 million available under the Loan Agreement. The Loan Agreement had a five-year term ending on January 3, 2027, at which time all amounts owing under the Loan Agreement were to become due and payable; subject, however, to each Lender's right, including Mr. Berman, to terminate the Loan Agreement, solely with respect to such Lender's obligation to provide further credit, at any time after January 3, 2023.

During the period January 3 to June 30, 2022, the Loan Agreement provided for us to pay a quarterly unused commitment fee equal to one-quarter of one percent of the amount of credit available but unused under the Loan Agreement, and initially required us to pay such fee in the form of shares of our common stock based on our net asset value per share on the last day of the applicable fiscal quarter. Beginning July 1, 2022, however, we became obligated under the Loan Agreement to pay the quarterly unused commitment fee in cash.

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At December 31, 2023 and 2022, the balance outstanding on the line was \$0. In January 2024, we terminated the Loan Agreement having earlier satisfied all amounts owing thereunder. Any applicable fees related to early termination of the Agreement were waived.

NOTE 9 – STOCK-BASED COMPENSATION

The Company's 2022 Stock Incentive Plan (the "Plan") authorized the issuance of incentives relating to 900,000 shares of common stock. As of December 31, 2023, incentives relating to the issuance of 870,000 shares have been issued under the Plan, leaving 30,000 shares available for issuance. The Plan was amended by the Board of Directors on August 14, 2023, and a registration statement on Form S-8 respecting the Plan was filed with the SEC on August 23, 2023.

The following table summarizes the activity for all stock options outstanding for the year ended December 31, 2023:

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	—	\$ 2.11
Granted	870,000	2.11
Exercised	(200,000)	2.12
Forfeited	—	—
Balance at December 31, 2023	670,000	\$ 2.11
Options exercisable at December 31:	670,000	\$ 2.11
Grant Date Fair Value for options granted during the period:		\$ 1,460,209

The following table summarizes additional information about stock options outstanding and exercisable at December 31, 2023:

Options Outstanding	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options Exercisable	Weighted Average Exercise Price
670,000	8.92	\$ 2.11	\$ 230,900	670,000	\$ 2.11	\$ 230,900

The Company recognized stock-based compensation expense for stock options of \$ 1,460,209 for the year ended December 31, 2023.

The Black-Scholes option-pricing model was used to estimate the fair value of equity-based awards with the following weighted-average assumptions for the year ended December 31, 2023:

	2023
Risk-free interest rate	3.88%
Expected volatility	90.00%
Expected life (years)	5.0
Expected dividend yield	—%

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The inputs for the Black-Scholes valuation model require management's significant assumptions. The price per share of common stock is determined by using the closing market price on the Nasdaq Capital Market on the grant date. The risk-free interest rates are based on the rate for U.S. Treasury securities at the date of grant with maturity dates approximately equal to the expected life at the grant date. The expected life is based on the simplified method in accordance with the SEC Staff Accounting Bulletin Nos. 107 and 110. The expected volatility is estimated based on historical volatility information of peer companies that are publicly available in combination with the Company's calculated volatility.

NOTE 10 – RELATED-PARTY TRANSACTIONS

We maintain a conflicts of interest and related-party transactions policy requiring (i) certain disclosures be made to our Board of Directors in relation to situations where officers, directors, significant shareholders, or any of their affiliates may enter into transactions with us, and (ii) certain disclosures appear in the reports we prepare and file with the SEC. In this regard, during the period covered by this report we entered into, or remained a party to, the following related-party transactions:

- On August 10, 2018, we entered into a loan transaction with Elizabeth Zbikowski who, along with her husband Scott Zbikowski, owned and continues to own approximately 534,000 shares of our common stock. In the transaction, we obtained a two-year promissory note in the principal amount of \$ 250,000, which was subsequently amended such that the note presently matures on July 1, 2024. The promissory note bears interest payable monthly at the rate of 10% per annum. The note is secured by the debtors' pledge to us of 277,778 shares of our common stock. The pledged shares are held in physical custody for us by Millennium Trust Company, as our custodial agent.
- On January 3, 2022, we entered into a Loan and Security Agreement (the "Loan Agreement") with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust (collectively, the "Lenders"). Mr. Berman is a director of our Company. Under the Loan Agreement, the Lenders made available to us a \$ 5 million revolving line of credit for us to use in the ordinary course of our short-term specialty finance business. The Loan Agreement was terminated in January 2024. See note 8 above for further details.

NOTE 11 — RETIREMENT SAVINGS PLANS

Our three full-time employees are eligible to participate in a qualified defined contribution 401(k) plan whereby they elect to have a specified portion of their salary contributed to the plan. We will make a

safe harbor match equal to 100% of their elective deferrals up to a maximum of 5% of eligible earnings in addition to our option to make discretionary contributions to the plan. We made aggregate contributions to the plan totaling \$23,750 and \$14,063 for the years ended 2023 and 2022, respectively.

NOTE 12 — INCOME TAXES

Presently, we are a "C-corporation" for tax purposes and have booked an income tax provision for the years ended December 31, 2023 and 2022. Income taxes for the year ended December 31, 2023, and 2022 are described below.

	December 31	
	2023	2022
Current taxes		
Federal	\$ 83,402	\$ 268,803
State	18,044	(13,155)
Deferred taxes		
Federal	(556,000)	(246,000)
State	—	—
Provision for (benefit from) income taxes	<u>\$ (454,554)</u>	<u>\$ 9,648</u>

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A reconciliation of income tax provisions at the U.S. statutory rate for fiscal year 2023 and 2022 is as follows:

	2023	2022
Rate reconciliation:		
Tax expense at U.S. statutory rate	\$ (431,776)	\$ 97,503
Change in deferred tax rate	(1,866)	450

Prior year over / under accrual	93,702	—
Provision-to-return reconciliation	(110,457)	(18,536)
Temporary differences	(71,856)	
Other	2,087	
Income tax provision	<u>\$ (454,554)</u>	<u>\$ 9,648</u>

As of December 31, 2023 and 2022 we had a deferred tax asset of \$ 757,000 and \$201,000, respectively. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of December 31, 2023 and 2022 were as follows:

	December 31	
	2023	2022
Deferred tax components		
Unrealized (gain) loss on marketable securities	\$ 343,886	\$ 156,590
Depreciation	1,619	1,781
R&D and foreign credits	40,820	43,828
Lease liability	—	(39)
Stock options	275,632	—
Acquisition costs	30,402	
Accrued bonuses	66,500	—
Other	(1,859)	(1,160)
Net deferred tax asset	<u>\$ 757,000</u>	<u>\$ 201,000</u>

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NOTE 13 — FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the years ended December 31, 2023 through 2019:

	Year Ended December 31,				
	2023	2022	2021	2020	2019
Per Share Data (1)					
Net asset value at beginning of period	\$ 2.89	2.80	2.44	2.05	2.30
Net investment gain (loss)	(0.07)	0.13	0.27	0.11	(0.14)
Net realized and unrealized gain (loss)	(0.19)	(0.11)	0.54	0.41	0.00
(Provision for) benefit from income taxes	0.07	0.00	(0.23)	(0.05)	0.00
Issuance of common stock	0.07	0.00	0.00	0.00	0.00
Stock-based compensation	0.23	0.05	0.00	(0.02)	0.00
Repurchase of common stock	0.00	0.00	0.00	0.05	0.00
Other changes in equity	(0.09)	0.02	0.00	0.00	0.00
Payment of common stock dividend	0.00	0.00	(0.22)	(0.11)	(0.11)
Net asset value at end of period	<u>\$ 2.91</u>	<u>2.89</u>	<u>2.80</u>	<u>2.44</u>	<u>2.05</u>
Ratio / Supplemental Data					
Per share market value of investments at end of period	\$ 2.75	2.70	2.95	1.40	0.36
Shares outstanding at end of period	6,385,255	6,185,255	4,795,739	4,793,739	4,918,845
Average weighted shares outstanding for the period	6,366,481	5,333,028	4,795,242	4,830,691	4,918,845
Net assets at end of period	\$ 18,590,263	17,871,560	13,414,049	11,640,887	10,068,533
Average net assets (2)	\$ 18,647,600	15,639,394	13,155,207	10,504,563	11,473,535
Total investment return	(7.27)%	1.43%	24.07%	23.08%	(5.88)%
Portfolio turnover rate (3)	59.65%	129.57%	168.67%	61.11%	7.63%
Ratio of operating expenses to average net assets (3)	(19.94)%	(21.73)%	(10.30)%	(7.16)%	(7.27)%
Ratio of net investment income (loss) to average net assets (3)	(2.25)%	5.12%	9.89%	5.35%	(5.86)%
Ratio of realized gains (losses) to average net assets (3)	(3.00)%	0.85%	31.30%	0.05%	28.35%

(1) Per-share data was derived using the weighted-average number of shares outstanding for the period.

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

(3) Ratios are annualized.

NOTE 14 — SUBSEQUENT EVENTS

None.

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ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met.

As of December 31, 2023, our Chief Executive Officer and Chief Financial Officer in conjunction with our Chief Compliance Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's internal controls were not effective as of December 31, 2023 due to a material weakness in our controls related to the proper accounting for transactions in accordance with GAAP. In order to remediate this matter, we plan to retain the assistance of an accounting expert to assist in the accounting and reporting of transactions. We will consider the material weakness to be fully remediated once the applicable controls operate for a sufficient period of time and our management has concluded, through testing, that these controls are operating effectively.

Report of Management on Internal Control Over Financial Reporting

Board of Directors and Shareholders Mill City Ventures III, Ltd.:

The management of Mill City Ventures III, Ltd. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities and Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It should be noted that any system of internal control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, the Company's management assessed the design and operating effectiveness of internal control over financial reporting as of December 31, 2023 based on the framework set forth in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2023 due to the material weakness described above. Boulay PLLP, an independent registered public accounting firm, is not required to issue, and thus has not issued, an attestation report on the Company's internal control over financial reporting as of December 31, 2023.

Changes in Internal Control

Other than the material weakness mentioned above, there were no changes in our internal control over financial reporting during the year ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

/s/ Douglas M. Polinsky
Chairman, President and Chief Executive Officer

/s/ Joseph A. Geraci, II
Chief Financial Officer

PART III**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Directors, Executive Officers, Promoters, and Control Persons**

Name	Age	Positions
Douglas M. Polinsky	64	Chairman, Chief Executive Officer and President
Joseph A. Geraci, II	54	Director and Chief Financial Officer
Howard Liszt	78	Director
Lyle Berman	82	Director
Laurence Zipkin	84	Director

Douglas M. Polinsky co-founded the Company in January 2006 and since that time has been the Chairman and Chief Executive Officer of the Company. Since 1994, Mr. Polinsky has been the President of Great North Capital Consultants, Inc., a financial advisory and investment company that he founded. Great North Capital Consultants, Inc. primarily engages in the business of investing in hard money lending with collateral on the loans being first or second mortgages in both residential and commercial properties. In addition, Great North Capital Consultants, Inc. makes direct investments into public and private companies. Since 2015, Mr. Polinsky has been an independent director of Liberated Syndication, Inc., a Nevada corporation with its operations in Pennsylvania. Liberated Syndication, Inc. is a host and publisher of podcasts. Mr. Polinsky is a member of the Audit and Compensation Committees of the Board of Directors of Liberated Syndication. Mr. Polinsky earned a Bachelor of Science degree in hotel administration at the University of Nevada, Las Vegas in 1981.

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., a Minneapolis-based broker-dealer firm, 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. Mr. Geraci was employed at other Minneapolis brokerage firms from July 1991 to June 2000. 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. 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.

In August 2003, the National Association of Securities Dealers (NASD) found in an administrative hearing that Mr. Geraci, while employed by and affiliated with a NASD member, had violated NASD Conduct Rule 2110 and SEC Rule 10b-5 in August 1999, and barred him from associating with any NASD member in the future.

Howard Liszt served as Chief Executive Officer of Campbell Mithun, a national marketing communications agency he joined in 1976, until 2001. Under his leadership, Campbell Mithun grew to be one of the 20 largest agencies in the world. He currently serves on the board of Wisdom Gaming. Mr. Liszt has served as a Board member for several industry-leading companies including Land O' Lakes, ShuffleMaster, Ocular Sciences, Coleman Natural Foods, and Eggland's Best. Mr. Liszt holds a Bachelor of Arts in Journalism and Marketing and a Masters of Science in Marketing from the University of Minnesota, Minneapolis.

he received the Gaming Executive of the Year Award; in 2004, Mr. Berman was inducted into the Poker Hall of Fame; and in 2009, he received the Casino Lifetime Achievement Award from Raving Consulting & Casino Journal. In 1998, Lakes Entertainment, Inc. was formed. In 2002, as Chairman of the Board and CEO of Lakes Entertainment, Inc., Mr. Berman was instrumental in creating the World Poker Tour. Since January 2005, Mr. Berman has also served as Chairman of the Board of Pokertek, Inc.

Laurence 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.

Under the Company's bylaws, the directors serve for indefinite terms expiring upon the next annual meeting of the Company's shareholders.

When considering whether directors and nominees have the experience, qualifications, attributes and skills to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Board of Directors focuses primarily on the industry and transactional experience, and other background, in addition to any unique skills or attributes associated with a director. With regard to Messrs. Polinsky and Geraci, the Board of Directors considered their significant experience, expertise and background with regard to investing in general and the Company in particular. With regard to Mr. Berman, the Board of Directors considered his background and experience with the public securities markets and his former employment and experience in operational capacities. With regard to Mr. Liszt, the Board of Directors considered his experience on other boards of public companies, his past experience in the communications and advertising fields, and his organizational experience. With regard to Mr. Zipkin, the Board of Directors considered his knowledge, experience and skills in the finance, public securities and investment banking fields.

Code of Ethics

Our Board of Directors adopted a Code of Ethics on August 5, 2008, and revised March 6, 2013 in connection with the Company's election to become a BDC. The Code of Ethics includes our Company's principal executive officer and principal financial officer, or persons performing similar functions, as required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002. The Company formally revised the Code of Ethics again in March 2021, to reflect the Company's withdrawal of its BDC election. Our Code of Ethics is available at our website, www.millcityventures3.com, or without charge, to any shareholder upon written request made to Mill City Ventures III, Ltd., Attention: Chief Executive Officer, 1907 Wayzata Blvd., Suite 205, Wayzata, MN 55391.

Changes to Board of Director Nomination Procedures

In March 2021, the Board of Directors formally created a Nominating and Governance Committee and adopted and associated charter. The charter alters the manner in which candidates for service as directors will be nominated for election or re-election and delegates that authority to the committee in lieu of the entire Board of Directors.

Communication with Board Members

Our Board of Directors has provided the following process for shareholders and interested parties to send communications to our board and/or individual directors. All communications should be addressed to Mill City Ventures III, Ltd., 1907 Wayzata Boulevard, Ste. 205, Wayzata, MN 55391, Attention: Chief Executive Officer. Communications to individual directors may also be made to such director at our company's address. All communications sent to any individual director will be received directly by such individuals and will not be screened or reviewed by any company personnel. Any communications sent to the board in the care of the Chief Executive Officer will be reviewed by that officer to ensure that such communications relate to the business of the Company before being reviewed by the board.

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Committees of the Board of Directors; Audit Committee Financial Expert

The Board of Directors has an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee. The members of the Audit Committee are Laurence Zipkin, Howard Liszt and Lyle Berman., each of whom is independent for purposes of the Securities Exchange Act of 1934. Mr. Berman currently serves as chair of the Audit Committee. The board has adopted a charter for the Audit Committee a copy of which is available at the Company's website at www.millcityventures3.com. The Audit Committee is responsible for approving the Company's independent accountants and recommending them to the board (including a majority of the independent directors) for approval and submission to the shareholders for ratification, if any, 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 discussing with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. The board has determined that Mr. Berman is an "audit committee financial expert" within the meaning of the rules of the Commission. Mr. Berman's relevant experience is detailed in his biography above. The Board of Directors has determined that each of the Audit Committee members is able to read and understand fundamental financial statements and that at least one member of the Audit Committee has past employment experience in finance or accounting.

The members of the Compensation Committee are Messrs. Zipkin, Liszt and Berman, each of whom is independent for purposes of the Securities Exchange Act of 1934. Mr. Liszt currently serves as chair of the Compensation Committee. The compensation committee is responsible for approving the Company's compensation arrangements with its executive management, including bonus-related decisions and employment agreements with respect to such individuals. The board has adopted a charter for the Compensation Committee, a copy of which is available at www.millcityventures3.com.

The members of the Nominating and Corporate Governance Committee are Messrs. Zipkin, Liszt and Berman, each of whom is independent for purposes of the Securities Exchange Act of 1934. Mr. Liszt currently serves as chair of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance committee is responsible for advising the Board on a broad range of issues

surrounding the composition and operation of the Board of Directors and its committees, specifically including identifying criteria for suitable board candidates, identifying individuals suited to service on the board (consistent with those criteria), recommending director candidates to the board and to the shareholders, conducting annual reviews of corporate governance matters and making related recommendations to the Board of Directors and its committees. The board has adopted a charter for the Nominating and Corporate Governance Committee, a copy of which is available at www.millcityventures3.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, requires our directors, executive officers and beneficial owners of more than 10% of our common stock to file with the SEC certain reports regarding their ownership of common stock or any changes in such ownership. Based on our own review, we believe that there were no late filings during 2023.

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ITEM 11 EXECUTIVE AND DIRECTOR COMPENSATION

Executive Compensation — Summary Compensation Table

The following table sets forth the total compensation paid by the Company during its two most recent fiscal years ended December 31, 2023 and 2022 to those persons who served as the Company's President or Chief Executive Officer and Chief Financial Officer during such periods (collectively, the "named executives").

Name and Principal Position	Year	Salary	Cash Bonus (1)	Stock Awards	Option Awards (2)	All Other Compensation*	Total
Douglas M. Polinsky, Chief Executive Officer	2023	\$ 200,000	\$ 125,000	\$ -	\$ 36,512	\$ 361,512	
	2022	\$ 100,000	\$ 250,000	\$ 12,683	\$ 530,000	\$ 35,045	\$ 927,728
Joseph A. Geraci, II, Chief Executive Officer	2023	\$ 200,000	\$ 125,000	\$ -	\$ -	\$ 45,014	\$ 370,014
	2022	\$ 150,000	\$ 250,000	\$ 12,683	\$ 530,000	\$ 44,042	\$ 986,725

(1) \$200,000 of the 2022 cash bonus amount reflected in the table was declared by the Compensation Committee and paid to the executive in January, 2023. \$250,000 of the 2023 cash bonus amount reflected in the table was declared by the Compensation Committee and paid to the executive in January 2024.

(2) The 2022 option award amount reflects the grant date fair value of options granted to the executive in November, 2022, subject to shareholder approval subsequently obtained in January 2023, using the Black-Scholes valuation method in accordance with FASB ASC Topic 718.

*includes additional compensation of payment of health insurance premiums and 401(k) matching contributions under the employment retirement program.

On February 20, 2023, we entered into new executive employment agreements with Mr. Douglas M. Polinsky, our Chief Executive Officer, and Mr. Joseph A. Geraci, II, our Chief Financial Officer. Those two executives have been executive officers of our company since its founding.

Each employment agreement was effective as of January 1, 2023, and has a term that lasts for two full years thereafter, ending on December 31, 2024 (subject to extension by mutual agreement of the parties). Each employment agreement provides the executive with a base annual salary of \$200,000. Each executive is also entitled to have health insurance provided by us and the ability to contribute to our 401(k) plan.

Each employment agreement contains two-year non-competition and non-solicitation covenants, as well as a customary covenants relating to the confidentiality of our company information. In the event that an executive is terminated for cause, as defined in the employment agreements, or in the event that an executive's services are terminated due to death or disability, the terminated executive will be entitled to receive only his base annual salary through the date of termination. In the event of other non-cause terminations, we will be obligated to pay the terminated executive's base annual salary through the remainder of the employment term.

Outstanding Equity Awards at Fiscal Year End

At December 31, 2022, we had issued to our named executive, and there were outstanding, an aggregate of 500,000 non-statutory ten-year stock options to purchase common stock at the purchase price of \$2.12 per share, under our 2022 Stock Incentive Plan. These stock options and the plan itself were, at that time, subject to the approval of our shareholders. Subsequently, our shareholders did approve the plan on January 20, 2023, at a special shareholder meeting called for that purpose. At December 31, 2023, all 500,000 of these options remained outstanding.

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Director Compensation

For 2023, we paid a total of \$270,000 in director fees to our independent directors. Presently, each such director receives an annualized cash fee of \$40,000, generally paid in quarterly installments.

Name	Year	Option Awards (1)	Compensation	Bonus (2)	Total
Joseph A. Geraci, II	2023	\$ -	\$ -	\$ -	\$ -
Douglas M. Polinsky	2023	\$ -	\$ -	\$ -	\$ -

Lyle Berman	2023	\$ 167,656	\$ 40,000	\$ 50,000	\$ 90,000
Howard P. Liszt	2023	\$ 167,656	\$ 40,000	\$ 50,000	\$ 90,000
Laurence S. Zipkin	2023	\$ 167,656	\$ 40,000	\$ 50,000	\$ 90,000

(1) Amount represents the grant date fair value in accordance with FASB ASC Topic 718.

(2) \$150,000 of the 2023 cash bonus amount reflected in the table was declared by the Board of Directors and paid to the director in January 2024.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following table sets forth certain information, as of the date of this report, with respect to any person (including any "group," as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) who is known to us to be the beneficial owner of more than 5% of any class of our voting securities, and as to those shares of our equity securities beneficially owned by each of our directors and executive officers and all of our directors and executive officers as a group. As of the date of this report, we had 6,385,255 shares of common stock outstanding.

Unless otherwise indicated in the table or its footnotes, the business address of each of the following persons or entities is 1907 Wayzata Blvd., Suite 205, 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)	676,981	10.20%
Joseph A. Geraci, II (3)	713,165	10.75%
Howard Liszt (4)	125,434	1.93%
Lyle Berman (5)	315,556	4.87%
Laurence Zipkin (6)	156,761	2.42%
Neal Linnihan SEP/IRA (8)	1,088,036	17.04%
Scott and Elizabeth Zbikowski (9)	768,445	12.03%
David Bester (10)	444,445	6.96%
Patrick Kinney (11)	418,794	6.56%
All current directors and executive officers as a group (7) (five persons)	1,858,982	25.87%

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- (1) The number of shares of common stock beneficially owned by each person is determined under the rules of the Commission and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which such person has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days after the date hereof, through the exercise of any stock option, warrant or other right. Unless otherwise indicated, each person has sole investment and voting power (or shares such power with his or her spouse) with respect to the shares set forth in the following table. The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares.
- (2) Mr. Polinsky is our Chairman and Chief Executive Officer. Figure includes 128,915 shares of common stock held by Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Polinsky and Geraci; 292,407 shares of common stock held individually and directly by Mr. Polinsky. The reported figure also includes a presently exercisable non-statutory stock option for the purchase of up to 250,000 shares of common stock.
- (3) Mr. Geraci is a director of our company and our Chief Financial Officer. Figure includes 128,915 shares of common stock held by Lantern Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Geraci and Polinsky; 325,481 shares of common stock held individually and directly by Mr. Geraci; 7,677 shares of common stock held individually by Mr. Geraci's spouse, and 445 shares of common stock held by Mr. Geraci's minor child. The reported figure also includes a presently exercisable non-statutory stock option for the purchase of up to 250,000 shares of common stock.
- (4) Mr. Liszt is a director of our Company. The reported figures include a presently exercisable non-statutory stock option for the purchase of up to 100,000 shares of common stock.
- (5) Mr. Berman is a director of our Company.
- (6) Mr. Zipkin is a director of our Company.
- (7) Consists of Messrs. Polinsky, Geraci, Liszt, Berman and Zipkin.
- (8) Based upon a Schedule 13G filed by Mr. Linnihan, and subsequent information obtained by the Company.
- (9) Based upon a Schedule 13G filed by Mr. and Mrs. Zbikowski, and subsequent information obtained by the Company.

(10) Based upon a Schedule 13G filed by Mr. Bester, and subsequent information obtained by the Company.

(11) Based upon a Schedule 13G filed by Mr. Kinney (including shares held by Mr. Kinney as a custodian for grandchildren), and subsequent information obtained by the Company.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Related Persons and Certain Conflict Disclosures

Our Board of Directors has adopted a policy to require our disclosure of instances in our periodic filings with the SEC. Our related-party transactions requiring disclosure under this policy are as follows:

- On August 10, 2018, we entered into a loan transaction with Elizabeth Zbikowski who, along with her husband Scott Zbikowski, owned and continues to own approximately 534,000 shares of our common stock. In the transaction, we obtained a two-year promissory note in the principal amount of \$250,000, which was subsequently amended such that the note presently matures in July 2024. The promissory note bears interest payable monthly at the rate of 10% per annum. The note is secured by the debtors' pledge to us of 277,778 shares of our common stock. The pledged shares are held in physical custody for us by Millennium Trust Company, as our custodial agent.
- On January 3, 2022, we entered into a Loan and Security Agreement (the "Loan Agreement") with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust (collectively, the "Lenders"). Mr. Berman is a director of our company. Under the Loan Agreement, the Lenders made available to us a \$5 million revolving line of credit for us to use in the ordinary course of our short-term specialty finance business. Amounts drawn under the Loan Agreement accrued interest at the per annum rate of 8%, and all our obligations under the Loan Agreement are secured by a grant of a collateral security interest in substantially all of our assets.

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As a Lender, Mr. Berman was obligated to furnish only one-half of the aggregate \$5 million available under the Loan Agreement. The Loan Agreement had a five-year term ending on January 3, 2027, at which time all amounts owing under the Loan Agreement were to become due and payable; subject, however, to each Lender's right, including Mr. Berman, to terminate the Loan Agreement, solely with respect to such Lender's obligation to provide further credit, at any time after January 3, 2023. We terminated the Loan Agreement in January 2024 having earlier satisfied all obligations owing thereunder.

Related-Party Transaction Policy

The Board of Directors has adopted a written Conflict of Interest and Related Party Transaction Policy. That policy governs the approval of all related-party transactions, subject only to certain customary exceptions (e.g., compensation, certain charitable donations, transactions made available to all employees generally, etc.). The policy contains a minimum dollar threshold of \$5,000.

The entire Board of Directors administers the policy and approves any related-party transactions. In general, after full disclosure of all material facts, review and discussion, the board approves or disapproves related-party transactions by a vote of a majority of the directors who have no direct or indirect interest in such transaction. Procedurally, no director is allowed vote in any approval of a related-party transaction for which he or she is the related party, except that such a director may otherwise participate in a related discussion and shall provide to the board all material information concerning the related-party transaction and the director's interest therein. If a related-party transaction will be ongoing, the board may establish guidelines for management to follow in its ongoing dealings with the related party.

Director Independence

The Company currently has five directors, and our Board of Directors has determined that three of our directors—Messrs. Liszt, Berman and Zipkin—qualify as independent directors in accordance with the published listing requirements of the Nasdaq Capital Market. The Nasdaq independence definition includes a series of objective tests, such as that the director is not, and has not been for at least three years, one of our employees and that neither the director, nor any of his family members has engaged in various types of business dealings with us. In addition, our Board of Directors has made a subjective determination as to each director that no relationships exist which, in the opinion of our Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes the fees for professional audit services provided by (i) Boulay PLLP for the audit of the Company's annual financial statements for the year ended December 31, 2023 and December 31, 2022, as well as the fees billed for other services rendered by Boulay PLLP.

	2023	2022
Audit Fees	\$ 206,500	\$ 136,803
Audit-Related Fees	—	91,940
Tax Fees	—	—
Total	\$ 206,500	\$ 228,743

Audit Fees. The fees identified under this caption were for professional services rendered by Boulay PLLP for the years ended 2023 and 2022 in connection with the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q. The amounts also include fees for services that are normally provided by the independent public registered accounting firm in connection with statutory and regulatory filings and engagements for the years identified.

Audit-Related Fees. The fees identified under this caption were for assurance and related services that were related to the performance of the audit or review of our financial statements and were not reported under the caption "Audit Fees." This category may include fees related to the performance of audits and attestation services not required by statute or regulations, and accounting consultations about the application of generally accepted accounting principles to proposed transactions.

Tax Fees. The fees identified under this caption were for tax compliance and corporate tax services. Corporate tax services encompass a variety of permissible services, including technical tax advice related to tax matters; assistance with state and local taxes.

Approval Policy. The Audit Committee of our Board of Directors approves in advance all services provided by our independent registered public accounting firm. All engagements of our independent registered public accounting firm in years ended 2023 and 2022 were pre-approved by the Audit Committee.

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PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of Mill City Ventures III, Ltd. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed January 23, 2013)
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation of Mill City Ventures III, Ltd. (incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed on August 11, 2022)
3.3	Amended and Restated Bylaws of Mill City Ventures III, Ltd. (incorporated by reference to Exhibit 3.2 to the registrant's registration statement on Form 10-SB filed on January 29, 2008)
4	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the registrant's registration statement on Form 10-SB filed on January 29, 2008)
10.1	Loan and Security Agreement with Eastman Investment, Inc., a Nevada corporation, and Lyle A. Berman, as trustee of the Lyle A. Berman Revocable Trust, dated January 3, 2022 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on January 10, 2022)
10.2	Employment agreement with Douglas Polinsky (incorporated by reference to Exhibit 10.2 to the registrant's annual report on Form 10-K filed on April 17, 2023)
10.3	Employment agreement with Joseph Geraci (incorporated by reference to Exhibit 10.3 to the registrant's annual report on Form 10-K filed on April 17, 2023)
10.4	Stock Incentive Plan (incorporated by reference to the registrant's definitive proxy statement filed on December 15, 2022)
14	Code of Ethics (incorporated by reference to Exhibit 14.1 to the registrant's registration statement on Form S-1/A filed on July 28, 2022)
31.1	Section 302 Certification of the Chief Executive Officer *
31.2	Section 302 Certification of the Chief Financial Officer *
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

* Filed electronically herewith.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MILL CITY VENTURES III, LTD.

/s/ Douglas Polinsky
Douglas Polinsky
Chief Executive Officer

Dated: April 1, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Douglas M. Polinsky
Douglas M. Polinsky

Chief Executive Officer, President and
Director (principal executive officer)

April 1, 2024
April 1, 2024

/s/ Joseph A. Geraci, II

Chief Financial Officer and Director

April 1, 2024

Joseph A. Geraci, II

(principal accounting and financial officer)

/s/ Lyle Berman
Lyle Berman

Director

April 1, 2024

/s/ Howard Liszt
Howard Liszt

Director

April 1, 2024

/s/ Laurence Zipkin

Director

April 1, 2024

CERTIFICATION

I, Douglas Polinsky, certify that:

1. I have reviewed this Annual Report on Form 10-K of Mill City Ventures III, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: April 1, 2024

/s/ Douglas Polinsky
Douglas Polinsky
Chief Executive Officer

CERTIFICATION

I, Joseph A. Geraci, II, certify that:

1. I have reviewed this Annual Report on Form 10-K of Mill City Ventures III, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: April 1, 2024

/s/ Joseph A. Geraci, II
 Joseph A. Geraci, II
 Chief Financial Officer

Certification of
Chief Executive Officer and Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Mill City Ventures III, Ltd. do hereby certify that, to the best of his knowledge:

- (a) the Annual Report on Form 10-K of Mill City Ventures III, Ltd. for the year ended December 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Mill City Ventures III, Ltd.

April 1, 2024

/s/ Douglas M. Polinsky
Douglas M. Polinsky
Chief Executive Officer

April 1, 2024

/s/ Joseph A. Geraci, II
Joseph A. Geraci, II
Chief Financial Officer