Mill City Ventures III, Ltd
Form DEF 14A
December 01, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant x

Filed by Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

**MILL CITY VENTURES III, LTD.**

(Name of Registrant As Specified In Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No:

3) Filing Party:

4) Date Filed:

**MILL CITY VENTURES III, LTD.**

328 Barry Avenue South #210

Wayzata, MN 55391

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD DECEMBER 19, 2014**

TO THE SHAREHOLDERS OF MILL CITY VENTURES III, LTD.:

Please take notice that the annual meeting of shareholders of Mill City Ventures III, Ltd. will be held, pursuant to due call by the Board of Directors of the company, at the company's office at 328 Barry Avenue South, #210, Wayzata, Minnesota 55391, at 9:00 a.m. local time, or at any adjournments thereof, for the purpose of considering and taking action on the following proposals:

1. To elect five directors to the company's Board of Directors;

2. To ratify the appointment of Baker Tilly Virchow Krause, LLP as the independent registered public accounting firm of the company for fiscal 2014;

3. To approve an amendment to the bylaws of the company;

4. To cast an advisory vote on the company's executive compensation ("say-on-pay vote"); and

5. To cast an advisory vote on the frequency of holding say-on-pay votes.

Pursuant to action of the Board of Directors, shareholders of record on November 10, 2014, will be entitled to notice of and vote at the meeting and any adjournments or postponements thereof.

**Important Notice Regarding the Availability of Proxy Materials for the**

**Shareholder Meeting to be Held on December 19, 2014**

The Proxy Statement for the annual meeting, the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and Quarterly Report on Form 10-Q for the period ended September 30, 2014, are included with this notice and are available to you on the Internet. We encourage you to review all of the important information contained in the included materials before voting. To view the Proxy Statement on the Internet, please visit https://materials.proxyvote.com/59982U.

By Order of the Board of Directors

Douglas M. Polinsky, *Chief Executive Officer*

December 1, 2014

**PROXY STATEMENT**

**Mill City Ventures III, Ltd.**

328 Barry Avenue South #210

Wayzata, MN 55391

**Annual Meeting of Shareholders**

**to be held**

**December 19, 2014**

**VOTING BY PROXY AND REVOCATION OF PROXIES**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Mill City Ventures III, Ltd. for use at the 2014 Annual Meeting of Shareholders to be held at the company's executive office at 328 Barry Avenue South #210, Wayzata, Minnesota 55391, at 9:00 a.m. local time, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect five directors to the company's Board of Directors;

2. To ratify the appointment of Baker Tilly Virchow Krause, LLP as the independent registered public accounting firm of the company for fiscal 2014;

3. To approve an amendment to the bylaws of the company;

4. To cast an advisory vote on the company's executive compensation ("say-on-pay vote"); and

5. To cast an advisory vote on the frequency of holding say-on-pay votes.

The approximate date on which this Proxy Statement and the accompanying proxy were first sent or given to shareholders was December 1, 2014.

**PROXIES AND VOTING**

Registered shareholders may vote in one of three ways: by completing and returning the enclosed proxy card via regular mail, or by voting via the Internet or by telephone. Specific instructions for using these methods are set forth on the enclosed proxy card. The Internet and telephone procedures are designed to authenticate the shareholder's identity and to allow shareholders to vote their shares and confirm that their instructions have been properly recorded.

The Board of Directors has set the close of business on November 10, 2014 as the "record date" for the annual meeting. Only holders of the company's common stock as of the record date, or their duly appointed proxies, are entitled to notice of and will be entitled to vote at the annual meeting or any adjournments thereof. On the record date, there were 12,161,939 shares of company common stock issued and outstanding. Each such share entitles the holder thereof to one vote upon each matter to be presented at the annual meeting. A quorum, consisting of a majority of the issued and outstanding shares of company common stock entitled to vote at the annual meeting, must be present in person or represented by proxy before action may be taken at the annual meeting.

Each proxy returned to us will be voted in accordance with the instructions indicated thereon. If a shareholder gives no direction, the shares will be voted as recommended by our Board of Directors. If any nominee for the Board of Directors should withdraw or otherwise become unavailable for reasons not presently known, the proxies that would have otherwise been voted for such nominee will be voted for such substitute nominee as may be selected by the Board of Directors. If a shareholder abstains from voting on any matter, the abstention will be counted for purposes of determining whether a quorum is present at the meeting for the transaction of business as well as shares entitled to vote on that matter. On matters other than the election of directors, an action of the shareholders generally requires the affirmative vote of a majority of shares present in person or represented by proxy at the annual meeting and entitled to vote on the matter. Accordingly, an abstention on any matter other than the election of directors will have the same effect as a vote against that matter. A non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Broker non-votes on a matter are counted as present for purposes of establishing a quorum for the meeting, but are not considered entitled to vote on that particular matter. Consequently, non-votes generally do not have the same effect as a negative vote on the matter.

A shareholder giving a proxy may revoke it at any time before it is exercised by (i) giving written notice of revocation to an executive officer of the company, (ii) delivering a duly executed proxy bearing a later date, or (iii) voting in person at the annual meeting. A shareholder’s mere presence at the annual meeting does not, alone, revoke a proxy previously signed and delivered by that shareholder. Instead, that shareholder must announce any revocation of the proxy at the time of the annual meeting. Unless so revoked, the shares represented by each proxy will be voted at the annual meeting and at any adjournments thereof. No dissenters’ rights of appraisal exist with respect to any matter to be voted upon at the meeting.

**NOTICE TO BENEFICIAL OWNERS OF SHARES HELD IN BROKER ACCOUNTS**

New York Stock Exchange Rule 452 prohibits NYSE member organizations from giving a proxy to vote with respect to an election of directors (Proposal One) without receiving voting instructions from a beneficial owner. Because NYSE Rule 452 applies to all brokers that are members of the NYSE, this prohibition applies to our annual meeting even though the company’s shares are not listed on the New York Stock Exchange. Therefore, brokers will not be entitled to vote shares at the annual meeting with respect to Proposal One without instructions by the beneficial owner of the shares. **AS A RESULT, BENEFICIAL OWNERS OF SHARES HELD IN BROKER ACCOUNTS ARE ADVISED THAT, IF THEY DO NOT TIMELY PROVIDE INSTRUCTIONS TO THEIR BROKER, THEIR SHARES WILL NOT BE VOTED IN CONNECTION WITH THE ELECTION OF DIRECTORS.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

We have one class of voting securities outstanding, common stock, $0.001 par value, of which 12,161,939 shares were issued and outstanding as of the close of business on the record date. Each share of common stock is entitled to one vote on all matters put to a vote of shareholders.

The following table sets forth, as of November 13, 2014, the beneficial ownership of each current director, each nominee for director, our named executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group. Unless otherwise indicated in the table or its footnotes, the business address of each of the following persons or entities is 328 Barry Avenue S., #210, Wayzata, Minnesota 55391, and each such person or entity has sole voting and investment power with respect to the shares of common stock set forth opposite their respective name.

| | **Number of Shares Beneficially Owned** (1) | **Percentage of Outstanding Shares** (1) | |
|---|---|---|---|
| Douglas M. Polinsky (2) | 552,358 | 4.5 | % |
| Joseph A. Geraci, II (3) | 556,130 | 4.6 | % |
| Howard P. Liszt (4) | - | * | |
| Christopher M. Larson (5) | - | * | |
| Laurence S. Zipkin (6) | - | * | |
| Neal Linnihan | 2,500,000 | 20.5 | % |
| Scott and Elizabeth Zbikowski (7) | 1,865,000 | 15.3 | % |
| Ervin Kramer | 1,087,728 | 8.9 | % |
| Donald Schreifels | 1,060,001 | 8.7 | % |
| David Bester | 1,000,000 | 8.2 | % |
| Patrick Kinney (8) | 942,278 | 7.7 | % |
| William Hartzell | 650,000 | 5.3 | % |
| All current directors and executive officers as a group (9) (five persons) | 818,433 | 6.7 | % |

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

(2) Mr. Polinsky is our Chairman and Chief Executive Officer. Shares beneficially owned include 69,411 common shares held by Great North Capital Consultants, Inc. (f/k/a Great North Capital Corp.), a Minnesota corporation of which Mr. Polinsky is the sole shareholder, officer and director, 290,055 common shares held by Lantern Advisers,

LLC, a Minnesota limited liability company co-owned by Messrs. Polinsky and Geraci, 180,164 common shares held individually by Mr. Polinsky, and 12,728 common shares Mr. Polinsky holds as a custodian for his children (beneficial ownership of which Mr. Polinsky disclaims).

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

(4) Mr. Liszt is a director of the company.

3

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

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

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

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

(9) Consists of Messrs. Polinsky, Geraci, Liszt, Larson and Zipkin.

**PROPOSAL ONE – ELECTION OF DIRECTORS**

We currently have five directors serving on our board. Each of our current directors has been nominated for re-election at the annual meeting. If elected, each nominee has consented to serve as a director and to hold office until the next annual shareholders' meeting, until his successor is elected and shall have qualified, or until his earlier death, resignation, removal or disqualification.

The following paragraphs provide information as of the date of this Proxy Statement about each nominee. The information presented includes information that each nominee has given us about his age, all positions he holds with the company, his principal occupation and business experience for the past five years, and the names of other publicly held companies of which he currently serves as a director or has served as a director during the past five years.

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 our 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. Larson, the Board of Directors considered his background and experience with the public securities markets and his former employment and experience in operational and financial capacities, as both a Chief Executive and Chief Financial Officer. 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.

Of the directors presently serving on the board and the nominees, Messrs. Larson, Liszt and Zipkin are "independent" as that term is defined in Section 5205(a) of Nasdaq listing rules, and not "interested persons" as that term is defined in the Investment Company Act of 1940. Our company is not, however, subject to the Nasdaq listing rules because its common stock is not listed for trading on any Nasdaq market.

| Name and Age of Director and/or Nominee | Principal Occupation, Business Experience<br>For the Past Five Years and Directorships of Public Companies | **Director**<br>**Since** |
|---|---|---|
| Douglas M. Polinsky, 55<br><br>(interested person) | Douglas M. Polinsky co-founded the company in January 2006 and, since that time, has been our Chairman and Chief Executive Officer. Since 1994, Mr. Polinsky has been the Chief Executive Officer of Great North Capital Consultants, Inc., a financial advisory company that he founded. Great North Capital Consultants advises corporate clients on matters regarding corporate and governance structures, public company acquisitions of private companies | 2006 |

and other transaction-related matters, and also make direct investments into public and private companies. Since 2007, Mr. Polinsky has been an independent director of FAB Universal Inc., a Pennsylvania-based company specializing in digital content distribution. Mr. Polinsky earned a Bachelor of Science degree in hotel administration at the University of Nevada at Las Vegas.

| | | |
|---|---|---|
| Joseph A. Geraci, II, 45<br><br>(interested person) | Joseph A. Geraci, II co-founded the company in January 2006 and has been a director and our Chief Financial Officer 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. From his career and investment experiences, Mr. Geraci has established networks of colleagues, clients, co-investors, and the officers and directors of public and private companies. Mr. Geraci was employed at other Minneapolis brokerage firms from July 1991 to June 2000. These networks offer a range of contacts across a number of sectors and companies that may provide opportunities for investment, including many that meet the company's screening criteria.<br><br>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. | 2006 |
| Howard P. Liszt, 68<br><br>(not an interested person) | Howard P. Liszt served as Chief Executive Officer of Campbell Mithun, a national marketing communications agency he joined in 1976, until 2001. After joining Campbell Mithun in 1976, Mr. Liszt was promoted to General Manager in 1984, President and Chief Operating Officer in 1994, and later in 1994 became Campbell Mithun's Chief Executive Officer, a role he held until his retirement in 2001. After retirement, Mr. Liszt served as a Senior Fellow at the University of Minnesota School of Journalism and Mass Communication, a role he held from 2001 through 2011. Also in 2001, Mr. Liszt began offering and providing management consulting services to private businesses. In 2006, Mr. Liszt began serving on the Board of Directors of Land O' Lakes, the second largest cooperative in the United States, on which board he continues to serve. In 2012, Mr. Liszt began serving on the Board of Directors of Eggland's Best, a branded egg company, on which board he continues to serve. In 2001, Mr. Liszt began serving on the Board of Directors of OCO Holdings, an independent and private marketing communications company, on which board he continues to serve. From 1998 through 2002, Mr. Liszt served as the Chairman of the Board of Coleman Foods. Finally, from 2011 until August 2014, Mr. Liszt also served as a director of Wireless Ronin Technologies, Inc., a publicly held Minnesota corporation now known as Creative Realities, Inc. and involved in digital marketing. Mr. Liszt holds a Bachelor of Arts in Journalism and Marketing and a Masters of Science in Marketing from the University of Minnesota, Minneapolis. | 2013 |

| | | |
|---|---|---|
| Christopher M. Larson, 42<br><br>(not an interested person) | Christopher M. Larson co-founded and acted as Chief Financial Officer of Cash Systems, Inc., a NASDAQ traded (symbol: CKNN) financial services company involved in the casino gaming industry, from 1999 to 2005. Mr. Larson also served on the Board of Directors of Cash Systems from 2001 to 2006 and on the Board of Directors of Western Capital Resources, Inc. from 2008 to 2009. In 2006, Mr. Larson founded National Cash & Credit, a private consumer finance company, for which he has served as President from 2006 to present. Mr. Larson is also currently the Chief Financial Officer of Hondo Minerals, an exploration-stage company engaged in the acquisition of historically significant, mines, mining claims and mining real estate in North America (OTC Pink: HMNC), and the Chief Financial Officer and a director of Mix 1 Life, Inc., a public corporation (OTCQB: MIXX). | 2013 |
| Laurence S. Zipkin, 75<br><br>(not an interested person) | Laurence S. Zipkin is nationally recognized for his expertise in the gaming industry, restaurants, and emerging small growth companies. From 1996 to 2006, Mr. Zipkin owned Oakridge Securities, Inc. where, as an investment banker, he successfully raised capital for various early growth-stage companies and advised 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. | 2013 |

**Vote Required**

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the five nominees named above. If you do not vote for a particular nominee, or you withhold authority for one or all nominees, your vote will not count either “for” or “against” the nominee, although it will be counted for purposes of determining whether there is a quorum. If any director-nominee should withdraw or otherwise become unavailable for reasons not presently known, the proxies which would have otherwise been voted for that director nominee may be voted for a substitute director nominee selected by the our Board of Directors.

***The Board of Directors recommends that you vote FOR the election of***

***each of the above-identified director-nominees.***

PROPOSAL TWO – Ratification of

Appointment of Independent Registered Public Accounting Firm

Our Board of Directors and management are committed to the quality, integrity and transparency of the company's financial reports. In accordance with the duties set forth in its written charter, the board's Audit Committee has appointed Baker Tilly Virchow Krause, LLP as the company's independent registered public accounting firm for the 2014 fiscal year. A representative of Baker Tilly Virchow Krause, LLP is expected to attend this year's annual meeting and be available to respond to appropriate questions from shareholders, and will have the opportunity to make a statement if he or she desires to do so.

**Fees Billed to Company by Its Independent Registered Public Accounting Firm**

The following table presents aggregate fees billed by Baker Tilly Virchow Krause, LLP for professional audit services rendered during fiscal years 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Audit Fees (1) | $28,000 | $48,400 |
| Audit-Related Fees (2) | — | — |
| Tax Fees (3) | — | — |
| All Other Fees (4) | — | — |
| Total Fees | $28,000 | $48,400 |

(1) The fees identified under this caption were for professional services rendered by Baker Tilly Virchow Krause, LLP for the years ended 2012 and 2013 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.

(2) 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.

(3) 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.

(4) All Other Fees typically consist of fees for permitted non-audit products and services provided.

The Audit Committee has reviewed the services provided by Baker Tilly Virchow Krause, LLP during fiscal year 2013 and 2014 and the fees billed for such services. After consideration, the Audit Committee has determined that the receipt of these fees by Baker Tilly Virchow Krause, LLP is compatible with the provision of independent audit services. The Audit Committee discussed these services and fees with Baker Tilly Virchow Krause, LLP and management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

**Pre-Approval Policy**

Our Audit Committee or the entire Board of Directors endeavors to approve in advance all services provided by our independent registered public accounting firm. All engagements of our independent registered public accounting firm in years ended 2012 and 2013 were approved by the Audit Committee. The Audit Committee did not pre-approve the rendering of services during 2014, but approved such services in a December 2014 meeting held prior to the annual meeting of shareholders.

**Vote Required**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to ratify the appointment of Baker Tilly Virchow Krause, LLP as the company's independent registered public accounting firm for fiscal 2014. If the shareholders do not ratify the appointment of Baker Tilly Virchow Krause, LLP, the Audit Committee may reconsider its selection, but is not required to do so. Notwithstanding the proposed ratification of the appointment of Baker Tilly Virchow Krause, LLP by the shareholders, the Audit Committee, in its discretion, may direct the appointment of new independent auditors at any time during the year without notice to, or the consent of, the shareholders, if the Audit Committee determines that such a change would be in the best interests of the company and its shareholders.

***The Board of Directors recommends that you vote FOR the ratification of Baker Tilly Virchow Krause, LLP***

*as the company's independent registered public accounting firm for fiscal 2014.*

**PROPOSAL THREE – Approval of Amendment TO Bylaws**

The Board of Directors is recommending an amendment to the company's bylaws to ensure that the composition of the Board of Directors complies with certain requirements of the Investment Company Act of 1940. The proposed amendment provides that, subject to the exceptions set forth in Section 56(b) of the Investment Company Act of 1940, a majority of the directors comprising the Board of Directors must not be "interested persons" as that term is defined in the Investment Company Act of 1940. In this regard, Section 2(a)(19) of the Investment Company Act of 1940, in pertinent part, defines an "interested person" of our company as follows:

(i) any "affiliated person" of our company (i.e., a director, officer or employee of our company, or a person who holds or controls of five percent or more of our common stock or other voting capital stock);

(ii) any member of the immediate family (as defined below) of any natural person who is an affiliated person of our company;

(iii) any interested person of any investment adviser of or principal underwriter for our company;

(iv) any person or partner or employee of any person who at any time since the beginning of our last two completed fiscal years has acted as legal counsel for such company;

(v) any person or any affiliated person of a person (other than a registered investment company) that, at any time during the six-month period preceding the date of the determination of whether that person or affiliated person is an interested person, has executed any portfolio transactions for, engaged in any principal transactions with, or distributed shares for (I) our company; (II) any other investment company having the same investment adviser as us or holding itself out to investors as a related company for purposes of investment or investor services; or (III) any account over which our investment adviser has brokerage placement discretion;

(vi) any person or any affiliated person of a person (other than a registered investment company) that, at any time during the six-month period preceding the date of the determination of whether that person or affiliated person is an interested person, has loaned money or other property to (I) our company; (II) any other investment company having the same investment adviser as us or holding itself out to investors as a related company for purposes of investment or investor services; or (III) any account for which our investment adviser has borrowing authority' and

(vii) any natural person whom the SEC by order shall have determined to be an interested person by reason of having had, at any time since the beginning of our last two completed fiscal years, a material business or professional relationship with our company or our principal executive officer or any other investment company having the same investment adviser or principal underwriter or with the principal executive officer of such other investment company;

Provided, however, that no person shall be deemed to be an interested person of our company solely by reason of (aa) his being a member of its board of directors or advisory board or an owner of its securities, or (bb) his membership in the immediate family of any person specified in clause (aa) of this proviso.

For the purposes of the above, ‘‘member of the immediate family’’ means any parent, spouse of a parent, child, spouse of a child, spouse, brother, or sister, and includes step and adoptive relationships.

The Board of Directors believes that shareholders' best interests are served by approving the proposed amendment to the bylaws. If adopted, the company does not anticipate that the newly adopted bylaw would have any impact on the Board of Directors as presently composed, and as proposed to be composed under Proposal One above.

The text of the proposed amendment, which is to be added as a new sentence to Section 4.1 of our bylaws, is set forth below:

"At all times during which the corporation shall have an effective election to be a "business development company" under Section 54 of the Investment Company Act of 1940, a majority of directors serving on the Board shall not be "interested persons" of the corporation, as such term is defined in the Investment Company Act of 1940, subject, however, to the permitted exceptions to the requirement under such Act that a majority of directors not be "interested persons" of the corporation (which exceptions are set forth in Section 56(b) of such Act)."

Section 56(b) of the Investment Company Act of 1940 presently contains the following requirements and exceptions:

"If, by reason of the death, disqualification, or bona fide resignation of any director or general partner, a business development company does not meet the requirements of subsection (a) of this section [that a majority of its directors be persons other than interested persons], or the requirements of section 15(f)(1) of this title with respect to directors, the operation of such provisions shall be suspended for a period of 90 days or for such longer period as the Commission may prescribe, upon its own motion or by order upon application, as not inconsistent with the protection of investors."

**Vote Required**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to approve the proposed amendment to the company's bylaws. If approved, the amendment will be effective immediately.

***The Board of Directors recommends that you vote FOR the proposed amendment to the bylaws.***

**PROPOSAL FOUR – Advisory Vote on Executive Compensation**

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, our shareholders are entitled to vote to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with applicable SEC rules. We refer to this advisory vote as the “say-on-pay” vote. This “say-on-pay” vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the compensation philosophy, policies and practices of our company described in this Proxy Statement.

Consistent with this right to give an advisory “say-on-pay” vote, we are asking shareholders to indicate their support at the annual meeting for the compensation of our named executive officers as described in this Proxy Statement by casting an advisory vote “FOR” the following resolution:

“RESOLVED, that the shareholders approve the compensation of the “named executive officers” of Mill City Ventures III, Ltd., as disclosed in the section entitled “Executive Compensation” in the Proxy Statement for such company’s 2014 annual meeting of shareholders pursuant to the SEC’s compensation disclosure rules.”

The compensation of our named executive officers is disclosed in the section entitled “Executive Compensation” below, including the tabular and narrative disclosures set forth in such section.

**Vote Required**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to approve, on an advisory basis, the compensation of our named executive officers as described herein. Because the vote is advisory, it will not be binding on the company, our Board of Directors or the Compensation Committee. Nevertheless, the views expressed by our shareholders, whether through this vote or otherwise, are important to us and, accordingly, the Board of Directors and the Compensation Committee intend to consider the results of this vote in making determinations in the future regarding executive compensation arrangements.

***The Board recommends that you vote FOR the proposal to approve the compensation of our***

***named executive officers, as described in this Proxy Statement.***

12

PROPOSAL FIVE – Advisory Vote on the

Frequency of Advisory Votes on Executive Compensation

The Dodd-Frank Act also enables our shareholders to indicate how frequently we should seek an advisory vote on the compensation of our named executive officers, as disclosed in accordance with the SEC's compensation disclosure rules, such as Proposal Four. In particular, we are asking whether the advisory vote should occur every three years, every two years, or every year.

The optimal frequency of the advisory vote on executive compensation depends on a balancing of the benefits and burdens of more or less frequent votes. Some observers (not of our company in particular, but of the general requirement under the Dodd-Frank Act to obtain an advisory say-on-pay vote) have expressed a belief that less frequent votes are appropriate as they enable shareholders to focus on a company's overall compensation program design, as opposed to short-term decisions, and provide sufficient time to evaluate how a company's compensation programs drive longer-term performance and the creation of longer-term shareholder value. Many also believe that a less frequent voting cycle will give companies sufficient time to respond thoughtfully to shareholder views and to implement any necessary changes to executive compensation programs and allow shareholders to evaluate the results of these changes before the next shareholder advisory vote.

On the other hand, other observers believe more frequent shareholder votes are better since they provide shareholders with the opportunity to react promptly to emerging trends in compensation and to provide rapid feedback to companies with respect to their views on the effectiveness and appropriateness of their executive compensation programs. According to this view, more frequent feedback would provide our Board of Directors and Compensation Committee with the opportunity to evaluate individual compensation decisions each year in light of the shareholder feedback and to better incorporate current shareholder views into companies' compensation programs.

At this time, our Board of Directors believes that the most appropriate outcome at this time is to have a shareholder advisory vote on compensation every three years, to best enable shareholders to evaluate the effect of our compensation on company performance and shareholder value.

You may cast your vote on your preferred voting frequency by choosing the option of three years, two years, one year, or abstain from voting when you vote on this proposal.

**Vote Required**

The option of three years, two years, or one year that receives the highest number of votes cast by shareholders will be the frequency for the advisory vote on executive compensation selected by shareholders. As with your vote on Proposal Four, your vote on this Proposal Five is advisory, and therefore not binding on the company, the Compensation Committee, or our Board of Directors, and the Board of Directors may decide that it is in the best interests of our shareholders and the company to hold an advisory vote on executive compensation more or less frequently than the option approved by our shareholders. However, our Board of Directors and our Compensation Committee value the opinions of our shareholders and we will take our shareholders' preferences into account in making determinations regarding the frequency of the say-on-pay vote.

***The Board of Directors recommends that shareholders vote for a frequency of "THREE YEARS"***

***for future advisory shareholders votes on executive compensation.***

**OTHER MATTERS**

The Board of Directors is not aware of any matter to be presented for action at the annual meeting other than the proposals described above. Although the Board of Directors knows of no other matters to be presented at the annual meeting, all proxies returned to us will be voted on any such matter in accordance with the judgment of the proxy holders.

**EXECUTIVE OFFICERS AND DIRECTORS**

| Name and Title | Age | Principal Occupation, Business Experience for the Past Five Years and Directorships of Public Companies |
|---|---|---|
| Douglas M. Polinsky, Chief Executive Officer (an "interested person") | 55 | See ''Election of Directors (Proposal One)" above |
| Joseph A. Geraci, II, Chief Financial Officer (an "interested person") | 45 | See ''Election of Directors (Proposal One)" above |
| Howard P. Liszt, Director (not an "interested person") | 68 | See ''Election of Directors (Proposal One)" above |
| Christopher M. Larson, Director (not an "interested person") | 42 | See ''Election of Directors (Proposal One)" above |
| Laurence S. Zipkin, Director (not an "interested person") | 75 | See ''Election of Directors (Proposal One)" above |

Each of our current directors has been nominated for reelection at the annual meeting. We currently have five directors, three of whom—Messrs. Liszt, Larson and Zipkin—are "independent" as that term is defined in Section 5605(a) of the Nasdaq listing rules. None of our independent directors are "interested persons" as that term is defined in the Investment Company Act of 1940. We are not subject to Nasdaq listing rules, however, because our common stock is not listed for trading on a Nasdaq market. Based upon information requested from each such director concerning his background, employment and affiliations, our Board of Directors has affirmatively determined that none of the independent directors has a material business or professional relationship with the company, other than in his capacity as a director.

**CORPORATE GOVERNANCE; BOARD LEADERSHIP STRUCTURE**

Our business, property and affairs are managed under the direction of our Board of Directors. Members of our Board of Directors are kept informed of our business through discussions with our Chairman and Chief Executive Officer, Chief Financial Officer, our Chief Compliance Officer and any other officers and employees, and by reviewing materials provided to them and participating in meetings of our Board of Directors and its committees. Under our bylaws, directors serve for indefinite terms expiring upon the next annual meeting of our shareholders.

Our Board of Directors currently combines the role of Chairman of the Board of Directors with the role of Chief Executive Officer. Our Board of Directors believes this provides an efficient and effective leadership model for our company. Combining these roles fosters clear accountability, effective decision-making, and alignment on corporate strategy. Since 2006, Mr. Polinsky has served as both our Chairman and Chief Executive Officer. Mr. Polinsky is an “interested person” as that term is defined in the Investment Company Act of 1940.

During 2013, our Board of Directors held two full board meetings and acted by written consent on approximately 14 occasions. All of the directors attended both of the full board meetings. In addition, each committee of the Board of Directors acted by written consent during 2013. Each director makes a diligent effort to attend all board and committee meetings, as well as our annual meeting of shareholders. In furtherance of this effort and expectation, our board has adopted a Board Meeting Policy affirmatively encouraging directors to attend or participate in meetings of the board and applicable committees whenever possible, and requiring directors to cause the company to comply with the requirements under Section 32(a) of the Investment Company Act of 1940.

**Board Oversight of Risk**

While risk management is primarily the responsibility of our management team, our Board of Directors is responsible for oversight of the material risks faced by us at both the full board level and at the committee level. Our board’s Audit Committee has oversight responsibility not only for financial reporting with respect to our major financial exposures and the steps management has taken to monitor and control such exposures, but also for the effectiveness of management’s enterprise risk management process that monitors and manages key business risks facing our company. In addition, the other committees of our Board of Directors consider the risks within their areas of responsibility. For example, the board’s Compensation Committee considers the risks that may be implicated by our executive compensation program. Finally, management provides regular updates throughout the year to our Board of Directors regarding the management of the risks they oversee at each regular board meeting.

**Board Committees**

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Valuation Committee. A brief description of each committee is included in this proxy statement and the charters of the Audit and Compensation Committees are available on the Investor Relations section of our website at http://www.millcityventures3.com/investor-relations/.

***Audit Committee***

The members of the Audit Committee are Laurence S. Zipkin, Christopher M. Larson and Howard P. Liszt, each of whom is independent for purposes of the Securities Exchange Act of 1934 and not “interested persons” for purposes of the Investment Company Act of 1940. Mr. Zipkin currently serves as chair of the Audit Committee.

The Audit Committee (which must include a majority of the independent directors who are not "interested persons" serving on board in order to comply with applicable requirements under the Investment Company Act of 1940) is responsible for approving our independent accountants 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 of Directors has determined that Mr. Zipkin is an "audit committee financial expert" within the meaning of the rules of the Securities and Exchange Commission. Mr. Zipkin's relevant experience is detailed in his biography above. The board 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.

***Compensation Committee***

The members of the Compensation Committee are Messrs. Larson, Zipkin and Liszt, each of whom is independent for purposes of the Securities Exchange Act of 1934 and not "interested persons" for purposes of the 1940 Act. Mr. Zipkin currently serves as chair of the Compensation Committee. The Compensation Committee is responsible for approving our compensation arrangements with executive management, including bonus-related decisions and employment agreements with respect to such individuals. The committee has a Compensation Committee Charter, the purpose of which is to assist the committee and the board in fulfilling its oversight responsibilities related to our compensation and compensation structure, including equity compensation, if any, paid by us.

Our processes and procedures for consideration and determination of executive and director compensation include:

- Assisting the Board of Directors in developing and evaluating potential candidates for executive positions and overseeing the development of executive succession plans;

- Annually reviewing and approving goals and objectives relevant to our executive officers' total compensation, evaluating the executive officers' performance to ensure that it is designed to achieve the objectives of rewarding those officers appropriately for their contributions to our growth and profitability and, together with the Chief Executive Officer, evaluating and approving the compensation of our other executive officers;

- Annually reviewing, determining and approving the compensation paid to the Chief Executive Officer and other executive compensation;

- Annually reviewing our compensation practices and the relationship among risk, risk management and compensation in light of our objectives, including its safety and soundness and the avoidance of practices that would encourage excessive risk;

- Periodically reviewing our incentive compensation plans and perquisites, if any, to ensure such plans are consistent with our goals and objectives and appropriately align executive officers' interests with those of our shareholders, make recommendations to the Board of Directors regarding the adoption of new employee incentive compensation plans and equity-based plans, and administer our existing incentive compensation plans and equity-based plans, including reviewing and approving stock option and restricted stock grants, if any;

- Periodically evaluating the compensation of directors, including compensation for service on board committees, and making recommendations to the Board of Directors regarding adjustments to such compensation;

- Preparing annually, if required, the Compensation Committee Report on executive compensation for inclusion in our Annual Report on Form 10-K or annual meeting proxy statements in accordance with Item 407(e)(5) of Regulation S-K;

- Reviewing and discussing with management the executive compensation disclosure to be included in relevant filings with the compensation disclosures contained in our filings with the SEC;

- Reviewing and assessing periodically the adequacy of the Compensation Committee Charter and submitting any proposed amendments to the Board of Directors for approval;

- Reporting regularly recommendations to the Board of Directors and performing annually, or participating in, an evaluation of the Compensation Committee, the results of which shall be presented to the Board of Directors; and

- Reviewing such other matters as the Board of Directors or the Committee shall deem appropriate.

***Valuation Committee***

The members of the Valuation Committee are Messrs. Larson, Zipkin and Liszt, each of whom is independent for purposes of the Securities Exchange Act of 1934 and not "interested persons" for purposes of the Investment Company Act of 1940. Mr. Liszt currently serves as chair of the Valuation Committee. The Valuation Committee is responsible for approving the fair value of debt and equity securities comprising our investment portfolio, pursuant to our written valuation policy and related procedures.

**Code of Ethics**

On August 5, 2008, our Board of Directors adopted a Code of Ethics, which covers our principal executive and financial officers, or persons performing similar functions, as required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002. Our Code of Ethics is available at our websi