



Form ADV

Part 2A Brochure

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This brochure provides information about the qualifications and business practices of Millrace Asset Group, Inc. If you have any questions about the contents of this brochure, please contact us as 610-251-2820 or dhammond@millraceasset.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Millrace Asset Group, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Millrace Asset Group, Inc. is registered with the SEC as an investment adviser. That registration does not imply a certain level of skill or training.

Item 2: Material Changes

There have been no material changes in the investment strategy employed or the business operations of Millrace Asset Group, Inc. since March 30, 2011, the date the previous Form ADV Part 2 was completed.

Item 3: Table of Contents

	<u>Page</u>
Item 1: Cover Page	Cover
Item 2: Material Changes	2
Item 3: Table of Contents	3
Item 4: Advisory Business	4
Item 5: Fees and Compensation	4
Item 6: Performance-Based Fees and Side-by-Side Management	5
Item 7: Types of Clients	5
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	5
Item 9: Disciplinary Information	7
Item 10: Other Financial Industry Activities and Affiliations	7
Item 11: Code of Ethics, Participation or Interest in Client Transactions And Personal Trading	8
Item 12: Brokerage Practices	8
Item 13: Review of Accounts	10
Item 14: Client Referrals and Other Compensation	10
Item 15: Custody	10
Item 16: Investment Discretion	10
Item 17: Voting Client Securities	11
Item 18: Financial Information	11

Item 4: Advisory Business

Millrace Asset Group, Inc. (“Millrace”) was established in 2001 and commenced operations in January 2002 with the inception of Millrace Fund, LP (the “Millrace Fund” or the “Fund”). Millrace was founded and is owned by William L. Kitchel and Whitney M. Maroney. The Millrace investment strategy employs long and short equity investments focused in the small and mid capitalization sector.

Millrace provides investment advisory services on a discretionary basis for the Millrace Fund and two separately managed accounts. Assets under management for Millrace as of February 29, 2012 totaled \$67.6 million, all on a discretionary basis. Millrace does not participate in any wrap fee programs.

Investors in the Millrace Fund are accredited investors or institutional investors meeting specific requirements. Each investor is provided a private placement memorandum and executes a limited partnership agreement prior to investing in the Fund. These materials describe the Millrace investment strategy and related investment risks. The Millrace strategy is not tailored for the needs of individual clients or subject to client restrictions on investing in specific securities or types of securities.

The separately managed accounts are investments on behalf of two open-end investment companies registered under the Investment Company Act of 1940. Open-end investment companies are commonly referred to as mutual funds.

Item 5: Fees and Compensation

The Fund pays Millrace a quarterly management fee based upon the value of the equity each partner has invested in the Fund. The rate of the management fee ranges between 1% and 1.5% per annum based upon the date the partner invested in the Fund and the amount of the initial investment. The management fee is calculated by the Fund’s third party administrator and paid from the Fund’s net assets, in advance, at the beginning of each calendar quarter after giving effect to partner withdrawals, if any.

Operational expenses for the Fund include the third party administrator as well as audit, tax and legal fees. There are also interest and dividend expenses incurred when borrowing securities for positions that the Fund has sold short. Commissions to brokers incurred to purchase or sell securities are a component of the gain or loss calculation on each transaction. All of these operational expenses of the Fund are allocated to all partners monthly pro-rata based upon their capital invested.

Under the terms of the sub-investment advisory agreements governing the separately managed accounts, Millrace is paid a percentage of each account’s average market value monthly in arrears. Millrace’s fees for these accounts and any similar future accounts are negotiable. All operational expenses and transaction costs for the separate accounts are borne entirely by those accounts.

Millrace, the General Partner and the owners and employees of Millrace are not compensated for the sale of securities or investment products of any type.

Item 6: Performance-Based Fees and Side-by-Side Management

Millrace Capital GP, LP is the general partner (the “General Partner”) of the Fund. Through a corporate structure, Mr. Kitchel and Mr. Maroney control the General Partner. The provisions of the Fund’s partnership agreement provide that the General Partner is entitled to a 20% incentive allocation of the net capital appreciation, after all fund expenses, of each limited partner’s interest in the Fund. Each incentive allocation calculation is subject to a loss recovery provision which is commonly referred to as a high watermark. The performance allocation is calculated by the Fund’s third party administrator and is allocated to the General Partner annually as of year-end. The partnership agreement allows the General Partner to reduce or waive the incentive allocation at its discretion.

The sub-investment advisory agreements do not provide for any performance-based fees for the separately managed accounts.

All assets under management with Millrace are invested in the same securities. All transactions are allocated pro-rata between the Fund and two separately managed accounts based upon the market value of each. Based upon the manner in which the Fund and separately managed accounts are invested the potential for conflicts of interest in favoring one account over another are mitigated.

Item 7: Types of Clients

We provide advisory services to the Fund, a pooled investment vehicle and two separately managed accounts. Please see the discussions under Item 4: Advisory Business, Item 5: Fees and Compensation and Item 6: Performance-Based Fees and Side-by-Side Management for further information about our clients.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

The objective of the Millrace investment strategy is to achieve absolute returns on capital while minimizing the risk of capital loss. The Millrace investment process utilizes intensive fundamental, bottoms-up, research-driven analysis to identify what it believes to be compelling long and short opportunities. Millrace employs both long and short equity positions to optimize potential returns and to preserve capital in difficult markets. The strategy is centered on the belief that greater inefficiencies exist and greater innovation occurs in the small capitalization sector than in higher market capitalization sectors. The Millrace investment team’s experience indicates that these inefficiencies can be exploited by applying a disciplined research methodology to identify companies that exhibit proprietary characteristics giving them a dominant position in their industry or market niche.

The Millrace investment team of three has collectively over 75 years of experience investing in the small cap growth space. This experience allows the team to leverage their prior

interactions with company managements, suppliers and competitors. In addition, we have constant contact with industry analysts and company managements directly in our office and through telephone contact. Industry conferences, channel checks and competitors are other sources of ideas. Millrace supplements its research by utilizing quantitative screening.

In the long portfolio, we are looking for companies with proprietary characteristics, improving fundamentals, a reasonable valuation and identifiable catalysts. After we identify our investment thesis, we assess downside risk and set a price target. These could be described as objective criteria, however, each investment stands on its own merit and the investment thesis and/or proprietary characteristics will of course be different in each case.

The short investment ideas are companies with excessive valuations relative to fundamentals, deteriorating balance sheets, decelerating revenue/margins and weakening competitive positions. The investment team then identifies a catalyst such as, questionable business practices, accounting, legal or regulatory problems or weakening market share. We develop an investment thesis and set a price target.

Prior to initiating any new position the originator will review the company and thesis with another member of the investment team. Because Millrace uses a hedged approach we may not capture the full upside of rising markets. In addition, our disciplined and extensive fundamental analysis may preclude us from participating in a market environment driven by momentum sentiments. The portfolio has realized a large percentage of the market gains on the upside, but often does better than the market on the downside.

The investment team constantly keeps the risk of loss in mind and attempts to moderate these risks. However, there can be no assurance that its investment and trading activities will be successful or the investors will not suffer losses. As we invest primarily in securities traded on the major stock exchanges, Millrace believes the primary risk of loss is associated with security selection. Risk is managed through the portfolio parameters such as net sector limits, position limits, liquidity constraints, net and gross market exposures. As bottoms up stock pickers, the investment team assesses risk on a position by position basis. Much time is spent sizing each position to arrive at a weighting to reflect risk/reward and near term catalysts. Positions are monitored daily through our use of our Stop/Target Report.

Millrace's investment program includes short selling, in effect borrowing a security that must be returned possibly at prices significantly in excess of the proceeds received from the short sale. Millrace is exposed to the risk of loss in an amount greater than the initial investment. Losses are potentially unlimited in a short sale.

The price of publicly traded securities can be impacted by many factors including, but not limited to: political or economic conditions, the health of a specific sector or issuing company, natural disasters, terrorism and the overall health of the economy. The Millrace investment strategy focuses on small and mid capitalization companies. The equity securities of these companies generally have more volatility and have less market liquidity than equity securities of larger capitalization companies. Increased volatility may cause higher levels of

turnover increasing commission and transaction costs that negatively impact the performance of the Millrace strategy.

Investors in the Fund are provided with a private placement memorandum which more fully discusses the risks involved. Investing in the Fund involves a risk of loss that investors must be prepared to bear. Because Millrace's counterparty to the sub-advisory investment agreements is registered with the Securities and Exchange Commission as an investment advisor, the counterparty has an understanding of the risk of loss involved with investing in securities.

Item 9: Disciplinary Information

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Millrace's advisory business or the integrity of its management.

Item 10: Other Financial Industry Activities and Affiliations

The Millrace Asset Group ("MAG") is comprised of four entities:

Millrace Asset Group, Inc. (Investment Adviser to Millrace Fund, LP)
Millrace Fund, LP (a pooled investment vehicle)
Millrace Capital GP, LP (the General Partner of Millrace Fund, LP)
Millrace Capital, Inc. (the General Partner of Millrace Capital GP, LP)

None of the MAG entities or their management persons are registered or has an application pending to register:

1. as a broker-dealer or a registered representative of a broker-dealer,
2. as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

Exclusive of the relationship between the affiliates that comprise MAG and the separately managed accounts mentioned above, none of the MAG entities or their management persons has a relationship or arrangement that is material to its advisory business or its clients with any related person listed below:

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency

9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships

Millrace does not recommend or select other investment advisers. Other than the fees for the separately managed accounts documented in Item 5: Fees and Compensation above, Millrace receives no direct or indirect compensation from other investment advisers.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

As a SEC registered investment adviser, Millrace has adopted a code of ethics which is available to clients or prospective clients upon written request to:

Dan Hammond
Millrace Asset Group, Inc.
1205 Westlakes Drive, Suite 375
Berwyn, PA 19312

Or by email at dhammond@millraceasset.com

Millrace has adopted its code of ethics with the intent to prevent improper personal trading, identify conflicts of interest and provide a means to resolve any actual or potential conflicts in favor of Millrace's clients. In summary, the code of ethics prohibits trading or investing for personal accounts in companies with market capitalizations of less than \$5 billion. All supervised persons have instructed their brokerage firms to provide duplicate statements directly to the Chief Compliance Officer. The code also addresses gifts, business entertainment, initial public offerings, private placements, service on the board of directors of for-profit organizations and managing accounts for third parties that are not Millrace clients. At the time of hire and annually during the compliance manual review and update process each Millrace employee acknowledges receipt and adherence with the code of ethics

All of the members of the investment team and the Millrace CFO have invested a material portion of their personal net worth in the Fund. These investments and the prohibition on personal account investment in companies with a market capitalization of less than \$5 billion aligns the interests of Millrace and its client and prevents conflicts with personal account positions. As documented in item 10 above, the Millrace Asset Group is comprised of four entities affiliated by common ownership or control by Mr. Kitchel and Mr. Maroney. The relationship of these entities is fully disclosed to potential investors in the Fund in the private placement memorandum.

Item 12: Brokerage Practices

Millrace has complete discretionary authority to select the brokers for execution of client transactions. The selection of each broker and the rate of commissions paid in each transaction are influenced by:

1. the price of the security,
2. the financial stability of the broker,
3. research or other services provided,
4. size and type of transaction,
5. the difficulty of execution and the firm's ability to handle illiquid trades,
6. operational facilities and efficiency thereof,

Millrace seeks "best execution" for all client transactions using a qualitative approach with consideration of the factors above not just the absolute lowest possible execution cost. To the extent that commissions paid are above the lowest possible execution cost the SEC considers the incremental cost to be "soft dollars". The Securities and Exchange Act of 1934 provides a safe harbor to investment advisers if their use of "soft dollars" is only for the research related items described in Section 28(e). Millrace uses "soft dollars" for research reports on specific companies, market sectors and general financial market and economic conditions as well as financial newsletters and periodicals and data services (including market data such as time and sales, company financial data and economic data). All of the research acquired by Millrace with "soft dollars" is within the safe harbor of Section 28(e).

The research reports received in exchange for "soft dollars" are sometimes written by the research staff of broker-dealers and at other times by independent research firms not affiliated with a broker-dealer. When client brokerage commissions are used to obtain research or data services Millrace receives a benefit as it does not have to produce or pay for the research or data services. Millrace may have an incentive to select a broker-dealer based upon interest in the research or other products or services rather than selecting another broker-dealer with the most favorable execution. In some situations, Millrace pays higher commissions in exchange for "soft dollar" benefits.

Millrace "soft dollar" transactions are completed in two distinct ways. The first procedure is to pay a commission to a broker dealer that is more than the lowest possible execution cost. The second procedure involves the use of Millrace's ECN (Electronic Communications Network) where the Millrace trader directly trades on the securities exchanges. A portion of each trades commission is accumulated in a "soft dollar" account maintained by the Fund's introducing broker. Upon presentation by Millrace of vendor invoices for the "soft dollar" products and services described above, the introducing broker pays the vendor directly from the accumulated "soft dollars".

Millrace does not select broker-dealers based upon client referrals. Directed brokerage, where a client directs its investment adviser to use a specific firm or firms is not part of the relationship that Millrace has with its clients. As more fully documented in Item 6: Performance-Based Fees and Side-by-Side Management above, all transactions are pro-rated across all client accounts.

Item 13: Review of Accounts

The Millrace strategy is implemented pro-rata based upon current market value for all transactions for all accounts. Please see Item 8: Methods of Analysis, Investment Strategies and Risk of Loss above which describes the Millrace investment strategy. Millrace's portfolio manager/analysts daily monitored all equity positions.

Investors in the Fund receive monthly letters updating the Fund's performance, quarterly statements are prepared and distributed by the Fund's third party administrator and annual audited financial statements are provided with the Fund's year end package. The separately managed accounts are monitored daily by the counterparty to the sub-investment advisory agreement.

Item 14: Client Referrals and Other Compensation

Other than "soft dollar" transactions described in item 12: Brokerage Practices above, Millrace does not receive any economic benefit from someone who is not a client for providing services to the Fund.

Millrace has entered into an investor services agreement with a solicitor who has referred investors to the Fund. There are no incremental fees to the investors or the Fund under this agreement. The investors are informed of this agreement prior to investing in the Fund.

Item 15: Custody

Based upon the fact that Millrace is entitled to direct payment of its management fee from the assets of the Fund, Millrace is deemed to have custody of the Fund's assets. The Fund utilizes a qualified independent custodian to hold its cash and marketable securities. Millrace does not have custody of the separately managed accounts which utilize two qualified independent custodians to hold their cash and marketable securities.

Investors in the Fund are provided quarterly statements prepared by Fund's third party administrator. The financial records of the Fund are prepared by the Fund's third party administrator based upon statements and information from the Fund's prime broker.

Item 16: Investment Discretion

Millrace has complete discretionary authority to invest all client assets based upon the investment advisory agreement with the Fund and the sub-investment advisory agreements with the separately managed accounts. As discussed previously, Millrace and the Fund are affiliated entities.

Item 17: Voting Client Securities

Millrace has adopted a proxy voting policy and related procedures under which Millrace votes proxies in the best interest of the client. The Fund has granted Millrace authority to vote proxies on its behalf. Generally, Millrace votes as recommended by the company's board of directors except when a proposal is viewed as adverse to a client's investment. By way of example, proposals which make it more difficult to replace members of the issuer's board of directors, stagger the board, introduce cumulative voting, introduce unequal or supermajority voting are considered adverse to a client's investment.

The Chief Compliance Officer will identify and resolve any conflicts of interest between Millrace and the Fund. A client may obtain a copy of Millrace's proxy vote policy and procedures or information about how particular proxies were voted by written request to the Millrace contact provided in item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading above.

The counterparty to the sub-investment advisory agreements has retained the responsibility to vote the proxies for the separately managed accounts.

Item 18: Financial Information

Millrace does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. There are no financial conditions that are reasonably likely to impair Millrace's ability to meet contractual commitments to its client.