

# **MICRON SOLUTIONS, INC.**

State of Incorporation:  
Delaware

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25 Sawyer Passway  
Fitchburg, MA 01420

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Telephone: (978) 345-5000  
Corporate Website: [www.micronsolutionsinc.com](http://www.micronsolutionsinc.com)

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SIC Code: 3845

## **Quarterly Report**

**For the period ending March 31, 2022** (the “Reporting Period”)

The number of shares outstanding of our Common Stock is 3,130,242 as of March 31, 2022.

The number of shares outstanding of our Common Stock was 3,085,742 as of December 31, 2021 (end of previous reporting period)

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

## Disclosure Regarding Forward-Looking Statements

Forward-looking statements made herein are based on current expectations of Micron Solutions, Inc. (“our” or the “Company” or Micron Solutions”) that involve a number of risks and uncertainties and should not be considered as guarantees of future performance. The factors that could cause actual results of operations, financial condition and business operations to differ materially include, but are not limited to, our ability to obtain and retain order volumes from customers who represent significant proportions of net sales; our ability to maintain our pricing model, offset higher costs with product price increases and/or decreases to our cost of sales; variability of customer delivery requirements and the ability to anticipate and respond thereto; the level of and ability to generate sales of higher margin products and services; our ability to manage our level of debt which higher debt levels could make the Company sensitive to the effects of economic downturns and limit our ability to react to changes in the economy or our industry; failure to comply with financial and other covenants in our credit facility; the impact on the Company’s operations and financial results due to economic uncertainty and disruption including, but not limited to, the COVID-19 pandemic and the ongoing Ukraine-Russian military conflict; reliance on revenues from exports and impact on financial results due to economic uncertainty or downturns in foreign markets; volatility in commodity and energy prices and our ability to offset higher costs and inflation with price increases; continued availability of labor, supplies, and raw materials and components used in manufacturing at competitive prices; variations in the mix of products sold; maintaining regulatory quality standards applicable to our manufacturing and quality processes; and the amount and timing of investments in capital equipment, sales and marketing, engineering and information technology resources. The COVID-19 pandemic has affected adversely, and is expected to continue to affect adversely, our operations, supply chains, financial condition and results of operations, and we have experienced and expect to continue to experience unpredictable reductions in demand for certain of our services. During the current COVID-19 pandemic, the Company has experienced reduced sales, supply chain disruption, product shipping disruptions, reduced customer demand and reduced availability of workforce. The current military conflict between Russia and Ukraine is adversely affecting the global economy, including contributing to rising commodity prices and supply trade disruptions. Further escalation of the Ukraine-Russian military conflict and geopolitical tensions related to such military conflict could result in, among other things, cyberattacks, supply disruptions, lower consumer demand, and changes to foreign exchange rates and financial markets. Although the Company has neither customers or suppliers based in either Russia or Ukraine, the foregoing affects on the global economy may adversely affect our business, financial condition and results of operations. The duration and the level of impact of these events, including price increases and on the availability of raw materials is unknown.

We assume no obligation to update these forward-looking statements contained in this report, whether as a result of new information, future events, or otherwise.

More information about the Company's financial results is included in the Company's most recent Annual Report for the fiscal year ended December 31, 2021, which is available for investors at [otcmarts.com](https://otcmarts.com).

**Item 1        The exact name of the issuer and its predecessor and the address of the issuer's principal executive offices.**

Exact name of the issuer: Micron Solutions, Inc.

Name of predecessor: Arrhythmia Research Technology, Inc. (Until March 24, 2017)

25 Sawyer Passway

Fitchburg, MA 01420

Phone: (978) 345-5000

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Website: [www.micronsolutions.com](http://www.micronsolutions.com)

Investor Relations:

Glen Bunnell, CFO

Email: [gbummell@micronsolutions.com](mailto:gbummell@micronsolutions.com)

Phone: (978) 345-5000

**Item 2        Shares outstanding**

<b>As of March 31, 2022</b>					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float)	Total Number of Beneficial Stockholders	Total Number of Stockholders of Record
Common Stock	10,000,000	3,130,242	1,738,273	682	174
<b>As of December 31, 2021</b>					
	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float)	Total Number of Beneficial Stockholders	Total Number of Stockholders of Record
Common Stock	10,000,000	3,085,742	1,746,051	709	174
<b>As of December 31, 2020</b>					
	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float)	Total Number of Beneficial Stockholders	Total Number of Stockholders of Record
Common Stock	10,000,000	2,979,007	1,761,782	659	177

For the three months ended March 31, 2022, the Company granted 159,000 stock options under the Company's 2019 Equity Incentive Plan. The options were granted to officers of the corporation and to a Micron employee.

**List of Securities Offerings and Shares Issued for Services  
for the Quarter Ended March 31, 2022**

				<b>Number of Shares of Underlying Common Stock</b>	<b>Per Share Exercise Price</b>	<b>Trading Status</b>	<b>Legend Yes/No</b>
Stock Options Issued <sup>(1)</sup>	1/19/2022	Stock Options	Officers & Employee	159,000	\$2.75	Restricted	Yes
Stock Options Forfeited <sup>(1)</sup>	3/23/2018	Stock Options	Employee	2,000	\$3.81	Unrestricted	No
Shares <sup>(1)</sup> in Lieu of Cash Compensation	2/4/2022	Shares	Board of Directors	44,500	\$3.34	Restricted	Yes

1. The stock options and shares referenced were issued pursuant to the Company's 2019 Equity Incentive Plan, as more fully described in Item 10, "Equity Incentive Plans", in the Company's Financial Statements included in its Annual Report for the year ended December 31, 2021.

### **Item 3 Interim financial statements.**

See Micron Solutions, Inc., and Subsidiary Consolidated Financial Statements for the Quarters Ended March 31, 2022 and 2021. Such financial statements are attached to the end of this Quarterly Update and were prepared in accordance with accounting principles generally accepted in the United States (“GAAP” or “US GAAP”)

The financial statements required by this Item 3 can be found on the following pages of Micron Solutions, Inc., and Subsidiary Consolidated Financial Statements for the Quarter Ended March 31, 2022.

<b>Financial Statement</b>	<b>Micron Solutions, Inc., and Subsidiary Consolidated Financial Statements for the three months ended March 31, 2022 and 2021 Page Reference</b>
Condensed Interim Consolidated Statements of Financial Position (unaudited)	9
Condensed Interim Consolidated Statements of Income (unaudited)	10
Condensed Interim Consolidated Statements of Shareholders' Equity (unaudited)	11
Condensed Interim Consolidated Statements of Cash Flows (unaudited)	12
Notes to Condensed Interim Consolidated Financial Statements	13 - 18

### **Item 4 Management's discussion and analysis or plan of operation.**

See Management's Discussion and Analysis for the three months ended March 31, 2022 which begins on page 19.

### **Item 5 Legal proceedings.**

We are not aware of any pending or threatened legal proceedings or administrative actions either by or against Micron that could reasonably be expected to have a material effect on Micron's business, financial condition, or operations. We are not aware of any current or pending trading suspensions of Micron stock by a securities regulator.

### **Item 6 Defaults upon senior securities.**

We have not had a material default in the payment of principal, interest or any other material default not cured within 30 days in the Reporting Period on any of the terms of any indebtedness for borrowed money exceeding 5% of the total assets of the Company.

### **Item 7 Other information.**

Not Applicable.

**Item 8      Exhibits.**

There are no exhibits required under this Item 8 that have not already been attached to a prior disclosure statement.

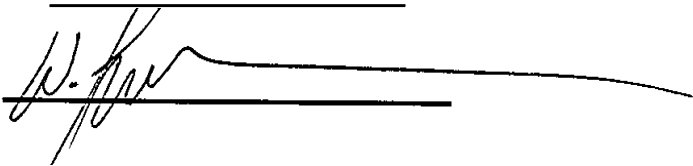
There have been no amendments to any exhibits previously attached to a disclosure statement.

## Item 9      **Certifications.**

I, William J. Laursen, certify that:

1. I have reviewed this quarterly disclosure statement of Micron Solutions, Inc (the "Company") for the reporting period ended March 31, 2022;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 13, 2022

A handwritten signature in black ink, appearing to read 'W. Laursen', is written over a horizontal line. The signature is stylized and extends to the right of the line.

William J. Laursen  
President & Chief Executive Officer

I, Glen R. Bunnell, certify that:

1. I have reviewed this quarterly disclosure statement of Micron Solutions, Inc. (the "Company") for the reporting period ended March 31, 2022;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 13, 2022

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Glen R. Bunnell

Treasurer & Chief Financial Officer



### Item 3. Interim Financial Statements

#### Micron Solutions, Inc. and Subsidiary Condensed Interim Consolidated Statements of Financial Position (unaudited)

	March 31, 2022	December 31, 2021
<b>Current assets:</b>		
Cash and cash equivalents	—	13,746
Restricted cash	150,000	150,000
Trade accounts receivable, net of allowance for doubtful accounts of \$43,169 at March 31, 2022 and at December 31, 2021	2,811,142	2,467,530
Inventories	3,367,847	3,002,124
Prepaid expenses and other current assets	403,908	372,503
<b>Total current assets</b>	6,732,897	6,005,903
Property, plant and equipment, net	2,273,471	2,471,708
Intangible assets, net	33,835	35,315
Right of use Operating lease asset, net of amortization	3,242,314	3,317,049
Other assets	89,160	89,160
<b>Total assets</b>	12,371,677	11,919,135
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Revolving line of credit	1,123,922	—
Accounts payable	707,440	769,048
Accrued expenses and other current liabilities	805,627	810,246
Contract liabilities	968,372	978,055
Operating lease liability, current portion	302,884	302,884
<b>Total current liabilities</b>	3,908,245	2,860,233
<b>Long-term liabilities:</b>		
Equipment line of credit, net	353,794	334,890
Operating lease liability, non-current portion	2,939,430	3,014,165
<b>Total long-term liabilities</b>	3,293,224	3,349,055
<b>Total liabilities</b>	7,201,469	6,209,288
<b>Commitments and Contingencies</b>		
<b>Shareholders' equity:</b>		
Preferred stock, \$ par value; 0 shares authorized, issued	—	—
Common stock, \$0.01 par value; 10,000,000 shares authorized; 3,926,491 shares issued, 3,130,242 and 3,085,742 shares outstanding at March 31, 2022 and December 31, 2021, respectively	39,265	39,265
Additional paid-in-capital	11,939,180	11,879,895
Treasury stock at cost, 796,249 and 840,749 shares at March 31, 2022 and December 31, 2021, respectively	(2,173,089)	(2,294,520)
Accumulated other comprehensive income		
Accumulated deficit	(4,635,148)	(3,914,793)
<b>Total shareholders' equity</b>	5,170,208	5,709,847
<b>Total liabilities and shareholders' equity</b>	12,371,677	11,919,135

*See accompanying notes to condensed consolidated financial statements.*

**Micron Solutions, Inc. and Subsidiary**  
**Condensed Interim Consolidated Statements of Income**  
**(unaudited)**

	<b>Three Months Ended</b>			
	<b>March 31,</b>			
	<b>2022</b>			<b>2021</b>
Net sales	\$ 4,683,268		\$	5,761,023
Cost of sales	4,285,956			4,831,599
Gross profit	397,312			929,424
Selling and marketing	181,457			118,076
General and administrative	915,877			652,900
Total operating expenses	1,097,334			770,976
Income (loss) from operations	(700,022)			158,448
Other income (expense):				
Interest expense	(26,965)			(43,748)
Other income, net	8,000			239
Total other income (expense), net	(18,965)			(43,509)
Net income (loss) before income tax provision	(718,987)			114,939
Income tax provision	1,368			—
Net income (loss)	\$ (720,355)		\$	114,939
Earnings (loss) per share - basic	(0.23)			0.04
Earnings (loss) per share - diluted	\$ (0.22)		\$	0.04
Weighted average common shares outstanding - basic	3,130,242			2,979,007
Weighted average common shares outstanding - diluted	3,306,870			3,036,836

*See accompanying notes to condensed consolidated financial statements.*

**Micron Solutions, Inc. and Subsidiary**  
**Condensed Interim Consolidated Statements of Shareholders' Equity**  
**(unaudited)**

	Common Shares		Additional	Treasury Stock		Accumulated	
	Number	Amount	Paid-in Capital	Shares	Amount	deficit	Total
<b>December 31, 2020</b>	3,926,491	\$ 39,265	11,746,031	932,484	\$ (2,544,846)	\$ (5,641,729)	\$ 3,598,574
Share based compensation.....			29,454				29,454
Issuance of Common Stock from Treasury..			27,199	(44,500)	121,431		148,630
Net income.....						114,939	114,939
<b>March 31, 2021</b>	3,926,491	\$ 39,265	11,802,684	887,984	\$ (2,423,415)	\$ (5,526,790)	\$ 3,891,597
<b>December 31, 2021</b>	3,926,491	\$ 39,265	11,879,895	840,749	\$ (2,294,520)	\$ (3,914,793)	\$ 5,709,847
Share based compensation.....			32,085				32,085
Issuance of Common Stock from Treasury..			27,200	(44,500)	121,431		148,631
Net income.....						(720,355)	(720,355)
<b>March 31, 2022</b>	3,926,491	\$ 39,265	11,939,180	796,249	\$ (2,173,089)	\$ (4,635,148)	\$ 5,170,208

*See accompanying notes to condensed consolidated financial statements.*

**Micron Solutions, Inc. and Subsidiary**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(unaudited)**

		Three Months Ended	
		March 31,	
		2022	2021
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$	(720,355)	\$ 114,939
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Gain on sale of property, plant and equipment		(8,000)	—
Depreciation and amortization		225,206	295,765
Non-cash interest expense		18,904	(111)
Share-based compensation expense		180,716	178,083
Changes in operating assets and liabilities:			
Accounts receivable		(343,612)	1,166,253
Inventories		(365,723)	(58,708)
Prepaid expenses and other assets		(31,405)	(172,402)
Accounts payable		(61,608)	468,035
Accrued expenses and other current liabilities		(4,619)	56,754
Contract liabilities		(9,683)	(57,861)
Net cash provided by (used in) operating activities		(1,120,179)	1,990,747
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment		(25,489)	(133,747)
Proceeds on sales of property, plant and equipment		8,000	—
Net cash provided by (used in) investing activities		(17,489)	(133,747)
<b>Cash flows from financing activities:</b>			
Proceeds (payments) on revolving line of credit, net		1,123,922	(836,718)
Payments on term notes payable		—	(114,286)
Net cash provided by (used in) financing activities		1,123,922	(951,004)
<b>Net change in cash and cash equivalents</b>		(13,746)	905,996
<b>Cash, cash equivalents and restricted cash, beginning of period</b>		13,746	570
<b>Cash, cash equivalents and restricted cash, end of period</b>	\$	0	\$ 906,566

		Three Months Ended	
		March 31,	
<i>Supplemental Cash Flow Information</i>		2022	2021
Cash paid for interest	\$	6,044	\$ 43,859
Non-cash activities:			
Issuance of treasury stock for directors' fees	\$	148,630	\$ 148,630

*See accompanying notes to condensed consolidated financial statements.*

**Micron Solutions, Inc. and Subsidiary**  
**Period Ended March 31, 2022**

**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

**1. Basis of Presentation and Accounting Policies**

The condensed consolidated financial statements (the "financial statements") include the accounts of Micron Solutions, Inc. ("Micron Solutions") and its subsidiary, Micron Products, Inc. ("Micron" and together with Micron Solutions, the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to such rules and regulations. These financial statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2021 filed with the OTC Markets Group, OTCQB on March 30, 2022.

The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The Company's balance sheet on December 31, 2021 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

The information presented reflects, in the opinion of the management of the Company, all adjustments necessary for a fair presentation of the financial results for the interim periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Liquidity and Management's Plan*

At March 31, 2022, the Company identified certain conditions and events which, in the aggregate, required management to perform an assessment of the Company's ability to continue as a going concern. These conditions included the Company's negative financial history and the Company's ability to generate sufficient cash to support the Company's operations and to meet debt service requirements under the Company's credit agreement. As of March 31, 2022, the Company has approximately \$2,300,000 of borrowing capacity on its revolving line of credit ("Revolver"). The bank's total commitment on the line of credit is a maximum of \$3,500,000. As a result of these factors, management has performed an analysis to evaluate the entity's ability to continue as a going concern for one year after the financial statements issuance date.

Management's analysis includes forecasting future revenues, expenditures and cash flows, taking into consideration past performance and the requirements under its credit agreement. Revenue and cash flow forecasts are dependent on the Company's ability to fill booked orders, to close on new and expanded business, and to improve overall financial performance.

On March 30, 2022, the Company entered into the First Amendment to the Loan and Security Agreement in which non-compliance with financial covenants for 2021 was waived and certain covenants for the first two quarters of 2022 were eliminated. The terms of the First Amendment also included the suspension of capital expenditures borrowing on the equipment line of credit, an amendment to the interest on the Revolver, a reduction of the total commitment on the Revolver from \$5.0 million to \$3.5 million, and an availability holdback of the borrowing base of \$500,000.

Based on management's analysis, the Company believes that cash flows from operations, together with

**Micron Solutions, Inc. and Subsidiary**  
**Period Ended March 31, 2022**

**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

existing working capital, booked orders, expense management, and the Revolver will be sufficient to fund operations at current and projected levels and to repay debt obligations over the next twelve months. However, there can be no assurance that the Company will be able to do so.

*Recent Accounting Pronouncements*

In the normal course of business, management evaluates all new accounting pronouncements issued by the FASB to determine the potential impact they may have on the Company's Consolidated Financial Statements. Based upon this review, management does not expect any of the recently issued accounting pronouncements, which have not already been adopted, to have a material impact on the Company's consolidated financial statements.

**2. Inventories**

Inventories consist of the following:

		<b>March, 31</b>		<b>December, 31</b>
		<b>2022</b>		<b>2021</b>
Raw materials	\$	661,402	\$	860,948
Work-in-process		2,039,417		1,647,950
Finished goods		667,028		493,226
Total	\$	3,367,847	\$	3,002,124

**3. Property, Plant and Equipment, net**

Property, plant and equipment, net consist of the following:

		<b>Asset Lives</b>			<b>March 31,</b>		<b>December 31,</b>
		<b>(in years)</b>			<b>2022</b>		<b>2021</b>
Machinery and equipment	3	to	15	\$	18,503,828	\$	18,436,842
Building and improvements	5	to	25		1,583,827		1,583,827
Vehicles	3	to	5		100,096		100,096
Furniture, fixtures, computers and software	3	to	5		2,037,340		2,024,740
Construction in progress					413,955		468,051
Total property, plant and equipment					22,639,046		22,613,557
Less: accumulated depreciation					(20,365,575)		(20,141,849)
Property, plant and equipment, net				\$	2,273,471	\$	2,471,708

Construction in progress is primarily comprised of a molding machine and related robotics, conveyors and other peripherals.

For the three months ended March 31, 2022 and 2021, the Company recorded depreciation expense of \$223,726 and \$295,765, respectively.

**Micron Solutions, Inc. and Subsidiary**  
**Period Ended March 31, 2022**

**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

**4. Sale-leaseback**

On May 14, 2021, the Company executed a purchase and sale agreement (the “P&S”) for the sale and leaseback of the Company’s main manufacturing facility in Fitchburg, Massachusetts. The agreement was made with an entity that is controlled by certain members of the Company’s Board of Directors, who are also stockholders (the “Buyer”). On June 3, 2021, the Company completed the sale and leaseback transaction, with the Company realizing proceeds of approximately \$3.9 million. The triple net lease on the Company’s 83,093 square foot facility has a ten-year term with four five-year extension options and initial rent of \$31,506 per month.

Upon execution of the lease, a right-of-use asset and a corresponding lease liability was recorded for the net present value of the lease payments in the amount of \$3,464,580. The difference between total lease payments and the net present value is being amortized as lease expense over the term of the lease

**5. Debt**

The following table sets forth the items which comprise debt for the Company:

	March 31,	December 31,
	2022	2021
Revolving line of credit	\$ 1,123,922	\$ —
Equipment line of credit	379,000	379,000
Less current portion, net	(1,123,922)	—
Bank Debt, non-current	379,000	379,000
Total debt	1,502,922	379,000
Less: Debt discounts	(18,904)	(44,110)
Total debt, net	\$ 1,484,018	\$ 334,890

**Bank Debt**

On June 30, 2021, the Company entered into a three-year \$7,000,000 Loan and Security Agreement (the “Agreement”) with a Massachusetts banking corporation, replacing the Company’s previous lender. The Agreement included a revolving line of credit (“Revolver”) of up to \$5.0 million and a capital expenditures line of credit of \$2.0 million (“Equipment Line of Credit”), both lines secured by substantially all of the assets of Company.

The agreement contains covenants related to various matters including certain financial covenants, prohibitions on further borrowings and security interests, merger or consolidation, acquisitions, guarantees, sales of assets other than in the normal course of business, leasing, and payment of dividends.

On March 30, 2022, the Company entered into the First Amendment to the Loan and Security Agreement in which non-compliance of financial covenants for 2021 was waived and certain covenants for the first two quarters of 2022 were eliminated. The terms of the First Amendment also included a suspension of capital expenditures borrowing on the equipment line of credit, an amendment to the interest on the Revolver, a reduction of the total commitment on the Revolver from \$5.0 million to \$3.5 million, and an availability holdback of the borrowing base of \$500,000.

**Micron Solutions, Inc. and Subsidiary**  
**Period Ended March 31, 2022**

**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

*Revolver*

The Revolver allows for interest only payments during the term of the facility with the full principal outstanding balance to be paid upon maturity on June 30, 2024. Under the First Amendment to the Loan and Security Agreement, interest on all borrowings from the Revolver will be calculated based upon the Term SOFR Rate (Secured Overnight Financing Rate) plus a spread adjustment plus 2.50% . The Term SOFR Rate + spread adjustment carries an interest rate floor of 0.75%. The interest rate on the Revolver was 3.25% at March 31, 2022.

The credit agreement provides for a daily sweep of cash balances against the balance of the Revolver. Availability to borrow under the Revolver is based on conditions defined in the credit agreement and amounts to approximately \$2,292,000 as of March 31, 2022.

*Equipment Line of Credit*

Through March 31, 2022, the Company has been advanced \$379,000 under the Equipment Line of Credit. Under the First Amendment of the Loan and Security Agreement, interest is charged on unpaid principal at the Prime Rate plus 0.50% (4.00% at March 31, 2022). On June 30, 2022 the outstanding balance of the Equipment Line of Credit will be converted to a five year term loan at an interest rate of either the then prevailing Federal Home Loan Bank ("FHLB") five year rate plus 3.0% or the Prime Rate plus .50%.

As part of the First Amendment to the Loan and Security Agreement, terms included a suspension of capital expenditures borrowing on the equipment line of credit.

Amortization of deferred financing costs are included in interest expense as non-cash interest and was \$18,904 for the three months ended March 31, 2022.

## **6. Income Taxes**

As of March 31, 2022, the Company continues to maintain a valuation allowance against its deferred tax assets.

As of March 31, 2021, the Company has federal and state net operating loss carryforwards totaling \$10,361,000 and \$10,036,000, respectively, which begin to expire in 2031. The Company also has federal and state tax credit carryovers of \$302,000 and \$168,000, respectively. The federal and state tax credits begin to expire in 2027 and 2022, respectively.

## **7. Commitments and Contingencies**

*Environmental remediation*

As part of the sale-leaseback transaction (see Note 4), the Company entered into an Escrow Agreement with the Buyer whereby the Company is obligated to pay for any environmental remediation costs, as defined by the Massachusetts Contingency Plan ("MCP") regulations, up to and in excess of \$150,000 which has been designated as restricted cash and is included in accrued expenses and other current liabilities on the consolidated balance sheet at March 31, 2022.



**Micron Solutions, Inc. and Subsidiary**  
**Period Ended March 31, 2022**

**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

*Legal matters*

In the ordinary course of its business, the Company is involved in various legal proceedings involving a variety of matters. The Company does not believe there are any pending legal proceedings that will have a material impact on the Company's financial position or results of operations.

*Operating lease agreements*

In addition to the building lease recorded on the balance sheet as the right of use asset and corresponding liability (see Note 4), the Company holds a one-year lease for a parking area, which ends in May 2022.

Lease expense under all operating leases for the three months ended March 31, 2022 and 2021 was \$103,518 and \$4,885, respectively.

Future minimum lease payments are as follows:

2022	\$	290,966
2023	\$	390,134
2024	\$	397,936
2025	\$	405,895
2026	\$	414,013
2027 through 2031	\$	1,928,791

## 8. Shareholders' Equity

*Stock options and share-based incentive plan*

The following table sets forth the stock option transactions for the three months ended March 31, 2022:

				Weighted		
				Average		Aggregate
	Number of			Exercise		Intrinsic
	options			Price		Value
Outstanding at December 31, 2021	241,500	\$		3.16	\$	82,150
Granted	159,000			2.75		
Exercised	—					
Forfeited	(2,000)			3.81		
Expired	—					
Outstanding at March 31, 2022	398,500	\$		3.16	\$	46,200
Exercisable at March 31, 2022	186,500	\$		3.14	\$	46,200
Exercisable at December 31, 2021	185,938	\$		3.14	\$	79,683

**Micron Solutions, Inc. and Subsidiary**  
**Period Ended March 31, 2022**

**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

The following table sets forth restricted stock unit activity for the three months ended March 31, 2022:

				<b>Weighted</b>
				<b>Average</b>
	<b>Number of</b>			<b>Grant Date</b>
	<b>options</b>			<b>Fair Value</b>
Outstanding at December 31, 2021	14,128	\$		3.15
Granted	—			
Exercised	—			
Forfeited	(3,969)			3.15
Outstanding at March 31, 2022	10,159	\$		3.15
Exercisable at March 31, 2022	10,159	\$		3.15

For the three months ended March 31, 2022 and 2021, share based compensation expense related to stock options and amounted to \$33,997 and \$18,602, respectively. Share based compensation is included in general and administrative expenses.

For the three months ended March 31, 2022, 159,000 stock options were granted, none were exercised, and 2,000 were forfeited due to an employee termination. For the three months ended March 31, 2021, 10,000 stock options were granted, none were exercised, forfeited, or expired.

Unrecognized stock-based compensation expense related to stock options as of March 31, 2022 and 2021 was \$523,959 and \$81,661, respectively.

In January 2021, the Company issued 29,128 restricted stock units with a fair value of \$3.15 per share which vested on a straight-line basis over the year ending December 31, 2021. For the three months ended March 31, 2021, share based compensation expense related to restricted stock units amounted to \$10,851. Unrecognized stock-based compensation expense related to restricted stock units was \$33,652 as of March 31, 2021.

*Common Stock*

For the three months ended March 31, 2022, the Company issued 44,500 shares of the Company's common stock, with a fair value of \$148,630 for director fees for the year ended December 31, 2022. Shares issued for director fees are subject to recapture and vest on a straight-line basis over the year ending December 31, 2022. For the three months ended March 31, 2021, the Company also issued 44,500 shares of the Company's common stock, with a fair value of \$148,630 for director fees for the year ended December 31, 2021.

#### **Item 4. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of the Company's results of operations and financial condition should be read in conjunction with the consolidated financial statements and notes pertaining to them that appear elsewhere in this Annual Report. Any forward-looking statements made herein are based on current expectations of the Company that involve a number of risks and uncertainties and should not be considered as guarantees of future performance. These statements are made under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "expect," "anticipate," "believe," "intend," "plans," "predict," or "will". Although the Company believes that expectations are based on reasonable assumptions, management can give no assurance that the expectations will materialize. Many factors could cause actual results to differ materially from the Company's forward-looking statements. These factors include the following, among other matters: the Company's ability to obtain and retain order volumes from customers who represent significant proportions of net sales; the Company's ability to maintain the pricing model, offset higher costs with price increases and/or decrease the cost of sales; the variability of customer delivery requirements and the ability of the Company to anticipate and respond thereto; the level of and ability to generate sales of higher margin products and services; the Company's level of debt and provisions in its credit agreement which could make the Company sensitive to changes in the economy or its industry and limit the Company's ability to react to changes in the economy or its industry; the Company's ability to comply with the financial and other covenants contained in its credit agreement, including as a result of events beyond its control, which could result in an event of default; the Company's reliance on revenue from exports and the impact on the Company's financial results due to economic uncertainty and disruption including, but not limited to, the COVID-19 pandemic, the Russia/Ukraine military conflict, volatility in commodity and energy prices and our ability to offset higher costs with price increases; changes in trade policy and tariffs, tax laws and regulations, or downturns in foreign and domestic markets; and continued availability of labor, supplies, and raw materials used in manufacturing at competitive prices, variations in the mix of products sold; the amount and timing of investment in capital equipment, sales and marketing, engineering and information technology resources. The Company is under no obligation and does not intend to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.*

##### **Overview**

Micron Solutions®, Inc., a Delaware corporation ("Micron Solutions"), through its wholly-owned Massachusetts operating subsidiary, Micron Products®, Inc. ("Micron" and together with Micron Solutions, the "Company"), is a diversified contract manufacturing organization ("CMO") that produces highly-engineered, innovative components requiring precision machining and thermoplastic injection molding. The Company manufactures components, devices and equipment for medical, military, automotive and consumer products applications. The Company's products include silver/silver chloride coated and conductive resin sensors used as consumable component parts in the manufacture of integrated disposable electrophysiological sensors. The Company's machining operations produce quick-turn, high volume and patient-specific orthopedic implant components and instruments as well as products for the defense industry. The Company has custom thermoplastic injection molding capabilities as well, and provides a full array of design, engineering, production services and management. The Company's diversified manufacturing capabilities enables it to participate in full product life-cycle activities from early-stage development and engineering and prototyping to full scale manufacturing as well as packaging and product fulfillment services.

### *Critical Accounting Policies*

The critical accounting policies utilized by the Company in preparation of the accompanying financial statements are set forth in Part D, Item 12 of the Company's Annual Report for the year ended December 31, 2021, under footnote 2 "Accounting Policies". There have been no material changes to these policies since December 31, 2021 for which an Annual Report was filed with the OTC Markets on March 30, 2022 and is available at [otcmarkets.com](http://otcmarkets.com). Management believes there have been no significant changes for the three months ended March 31, 2022 to the items that we disclosed as our critical accounting estimates in our Annual Report for the fiscal year ended December 31, 2021.

### *Liquidity and Management's Plan*

At March 31, 2022, the Company identified certain conditions and events which, in the aggregate, required management to perform an assessment of the Company's ability to continue as a going concern. These conditions included the Company's negative financial history and the Company's ability to generate sufficient cash to support the Company's operations and to meet debt service requirements under the Company's credit agreement. As of March 31, 2021, the Company has approximately \$2,300,000 of borrowing capacity on its revolving line of credit ("Revolver"). As a result of these factors, management has performed an analysis to evaluate the entity's ability to continue as a going concern for one year after the financial statements issuance date.

Management's analysis includes forecasting future revenues, expenditures and cash flows, taking into consideration past performance and the requirements under its credit agreement. Revenue and cash flow forecasts are dependent on the Company's ability to fill booked orders, to close on new and expanded business, and to improve overall financial performance.

On March 30, 2022, the Company entered into the First Amendment to the Loan and Security Agreement in which non-compliance of financial covenants for 2021 was waived and certain covenants for the first two quarters of 2022 were eliminated. The terms of the First Amendment also included a suspension of capital expenditures borrowing on the equipment line of credit, an amendment to the interest on the Revolver, a reduction of the total commitment on the Revolver from \$5.0 million to \$3.5 million, and an availability holdback of the borrowing base of \$500,000.

Based on management's analysis, the Company believes that cash flows from operations, together with existing working capital, booked orders, expense management, and the Revolver will be sufficient to fund operations at current and projected levels and to repay debt obligations over the next twelve months. However, there can be no assurance that the Company will be able to do so.

## Results of Operations

The following table sets forth, for the periods indicated, the percentages of the net sales represented by certain items reflected in the Company's statements of operations.

	Three Months Ended			
	March 31,			
	2022		2021	
Net sales	100.0	%	100.0	%
Cost of sales	91.5		83.9	
Gross profit	8.5		16.1	
Selling and marketing	3.9		2.0	
General and administrative	19.6		11.3	
Other income	0.4		0.8	
Income before income tax provision (benefit)	(15.4)		2.0	
Income tax provision (benefit)	—		—	
Net income	(15.4)	%	2.0	%

## Net Sales

Net sales		2022		2021		\$ Change	% Change
Three months ended March 31	\$	4,683,268	\$	5,761,023	\$	(1,077,755)	(18.7)%

The decrease in consolidated net sales for the three months ended March 31, 2022 versus the prior year period was across all product lines.

## Gross Profit

Gross profit		2022		2021		\$ Change	% Change
Three months ended March 31	\$	397,312	\$	929,424	\$	(532,112)	(57.3)%
As a percentage of sales		8.5%		16.1%			

The decrease in consolidated gross profit for the three months ended March 31, 2022 versus the corresponding prior year period is in correlation with the decrease in sales.

## Selling and Marketing

The Company's consolidated selling and marketing expenses amounted to \$181,457 (3.9% of net sales) for the three months ended March 31, 2022 as compared to \$118,076 (2.0% of net sales) for the three months ended March 31, 2021, an increase of 53.7%. For the three months ended March 31, 2022, as compared to the prior period, the increase is primarily due to added personnel. During the first quarter of 2021, there were only two to three full-time sales positions filled. As of March 31, 2022, there were four full-time positions filled for the entire first quarter, including the new position of Executive Vice President of Sales and Strategy.

## General and Administrative

The Company's general and administrative expenses were \$915,877 (19.6% of net sales) for the three

months ended March 31, 2022 as compared to \$652,900 (11.3% of net sales) for the three months ended March 31, 2021, an increase of \$262,977, or 40.3%. The increase in general and administrative expenses for the three months ended March 31, 2022, when compared to the same period in 2021, is due primarily to payments of rent (\$107,943) which began in June, 2021 with the sale-leaseback (see Note 4), a 2021 bonus credit adjustment, 2022 executive bonus accruals, increased depreciation due to the 2021 implementation of a new ERP system, compensation increases, and audit fees.

### ***Other Expense, net***

Other expense, net decreased to \$18,965 for the three months ended March 31, 2022, as compared to \$43,509, for the three months ended March 31, 2021, a decrease of \$24,544. The decrease in other expense, net was due primarily to a \$16,783 decrease in interest expense and a gain of \$8,000 on sales of fully depreciated assets.

### ***Income Tax Provision***

The tax provisions for the three months ended March 31, 2022 and 2021 attributable to the U.S. federal and state income taxes are \$1,368 and \$0, respectively. The Company's combined federal and state effective income tax rate for the three months ended March 31, 2022 and 2021 of 0% is due to the deferred tax assets being nearly fully reserved for with a valuation allowance.

### ***Earnings Per Share***

The basic loss per share for the three months ended March 31, 2022 was (\$0.23) per share, compared to basic earnings per share of \$0.04 for the same period in 2021, a decrease of (\$0.27) per share. The diluted loss per share for the three months ended March 31, 2022 was (\$0.22) per share, compared to diluted earnings per share of \$0.04 for the same period in 2021, a decrease of (\$0.26) per share. The decrease in earnings per share for the three months ended March 31, 2022, is due primarily to decreased net sales of \$1,077,755, decreased gross profit of \$532,112, and increased operating expenses of \$326,358, all as noted above.

### ***Liquidity and Capital Resources***

Working capital was \$2,821,652 as of March 31, 2022, as compared to \$3,145,670 at December 31, 2021, a decrease of \$321,018. The decrease in working capital is due primarily to an increase in bank debt, partially offset by increases in accounts receivable and inventory.

Trade accounts receivable, net of allowance for doubtful accounts, were \$2,811,142 and \$2,467,530 at March 31, 2022 and December 31, 2021, respectively, an increase of \$343,612. The increase is due largely to greater sales in the first quarter of 2022 compared to the fourth quarter of 2021.

Inventories increased by \$365,723 to \$3,367,847 at March 31, 2022 from December 31, 2021. The most significant portion of the increase was work in process related to higher projected sales for the second quarter.

Accounts payable decreased from December 31, 2021 to March 31, 2022 by \$61,608..

Capital equipment expenditures were \$25,489 for the three months ended March 31, 2022. The spending was primarily for peripheral manufacturing equipment such as scales and product vision systems.

At March 31, 2022, the Company's total debt was \$1,502,922 as compared to \$379,000 at

December 31, 2021, an increase of \$1,123,922. The increase is due to the utilization of the revolving line of credit to fund operations during this period of decreased sales.

Amounts available to borrow under the Revolver were \$2,292,232 at March 31, 2022.

No dividends were declared or paid in the three months year ended March 31, 2022 and 2021.

The Company believes that cash flows from its operations, together with existing working capital, booked orders, expense management, and the Revolver will be sufficient to fund operations at current and projected levels and to repay debt obligations over the next twelve months. However, there can be no assurance that the Company will be able to do so.

#### *Summary of Changes in Cash Position*

As of March 31, 2022, the Company had zero cash on hand, as cash is swept daily against the Revolver in accordance with the Company's credit agreement. For the three months ended March 31, 2022, net cash used by operating activities was \$1,120,179. Net cash used in investing activities for the three months ended March 31, 2022 was \$17,489. Net cash provided by financing activities for the three months ended March 31, 2022 was \$1,123,922. The net cash flows for the three months ended March 31, 2022 are discussed in further detail below.

#### *Operating Cash Flows*

For the three months ended March 31, 2022, net cash used by operating activities was \$1,120,179. Cash used by operating activities was primarily the result of the net loss partially offset by the non-cash addbacks for depreciation, amortization and share based compensation, by increases in accounts receivable and inventory, and by decreases in accounts payable.

#### *Investing Cash Flows*

For the three months ended March 31, 2022, net cash used in investing activities was \$17,489, comprised of \$25,489 in capital expenditures partially offset by an \$8,000 gain on the sales of some fixed assets.

#### *Financing Cash Flows*

For the three months ended March 31, 2022, net cash provided by financing activities was \$1,123,922, due to the utilization of the revolving line of credit.