

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

001-9731
(Commission file No.)

Micron Solutions, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

72-0925679
(I.R.S. employer identification no.)

25 Sawyer Passway
Fitchburg, Massachusetts 01420
(Address of principal executive offices and zip code)

(978) 345-5000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed from last report)

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

| Title of each class | Trading symbol | Name of each exchange on which registered |
|--------------------------------|----------------|---|
| Common Stock, \$0.01 par value | MICR | New York Stock Exchange |

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large Accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company
Emerging growth company

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

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

As of May 14, 2019 there were 2,872,208 shares of the Company's common stock outstanding.

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Condensed Consolidated Balance Sheets
(unaudited)**

| | March 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,684 | \$ 1,715 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$39,169 at March 31, 2019 and \$40,000 at December 31, 2018 | 2,767,238 | 2,325,804 |
| Inventories | 3,916,721 | 3,685,059 |
| Assets held for sale, net | 688,750 | 688,750 |
| Prepaid expenses and other current assets | 367,869 | 389,390 |
| Total current assets | 7,742,262 | 7,090,718 |
| Property, plant and equipment, net | 4,832,482 | 5,131,773 |
| Intangible assets, net | 51,744 | 53,155 |
| Other assets | 5,140 | 5,140 |
| Total assets | \$ 12,631,628 | \$ 12,280,786 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Revolving line of credit | \$ 2,794,903 | \$ 2,025,592 |
| Term notes payable, current portion | 389,420 | 389,420 |
| Accounts payable | 1,009,687 | 1,200,298 |
| Accrued expenses and other current liabilities | 798,180 | 459,108 |
| Contract liabilities, current portion | 552,138 | 560,802 |
| Total current liabilities | 5,544,328 | 4,635,220 |
| Long-term liabilities: | | |
| Term notes payable, non-current portion | 3,460,103 | 3,557,458 |
| Total long-term liabilities | 3,460,103 | 3,557,458 |
| Total liabilities | 9,004,431 | 8,192,678 |
| Commitments and Contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.001 par value; 2,000,000 shares authorized, none issued | — | — |
| Common stock, \$0.01 par value; 10,000,000 shares authorized; 3,926,491 issued, 2,872,208 outstanding at March 31, 2019 and 3,926,491 issued, 2,861,008 outstanding at December 31, 2018 | 39,265 | 39,265 |
| Additional paid-in-capital | 11,632,117 | 11,604,817 |
| Treasury stock at cost, 1,054,283 shares at March 31, 2019 and 1,065,483 shares at December 31, 2018 | (2,876,928) | (2,907,490) |
| Accumulated deficit | (5,167,257) | (4,648,484) |
| Total shareholders' equity | 3,627,197 | 4,088,108 |
| Total liabilities and shareholders' equity | \$ 12,631,628 | \$ 12,280,786 |

See accompanying notes to condensed consolidated financial statements.

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Micron Solutions, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------|
| | 2019 | 2018 |
| Net sales | \$ 4,685,630 | \$ 5,119,048 |
| Cost of sales | 4,031,803 | 4,387,688 |
| Gross profit | 653,827 | 731,360 |
| Selling and marketing | 149,142 | 190,540 |
| General and administrative | 884,875 | 604,035 |
| Research and development | 27,177 | 27,921 |
| Total operating expenses | 1,061,194 | 822,496 |
| Net loss from operations | (407,367) | (91,136) |
| Other income (expense): | | |
| Interest expense | (110,977) | (97,012) |
| Other income (expense), net | (429) | 8,501 |
| Total other expense, net | (111,406) | (88,511) |
| Net loss before income tax provision (benefit) | (518,773) | (179,647) |
| Income tax provision (benefit) | — | — |
| Net loss | \$ (518,773) | \$ (179,647) |
| Earnings (loss) per share - basic and diluted | \$ (0.18) | \$ (0.06) |
| Weighted average common shares outstanding - basic and diluted | 2,866,608 | 2,842,105 |

See accompanying notes to condensed consolidated financial statements.

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

| | Common stock | | Additional paid-in capital | Treasury stock | | Accumulated deficit | Total |
|---|--------------|-----------|----------------------------------|----------------|----------------|------------------------|--------------|
| | Shares | Amount | | Shares | Amount | | |
| December 31, 2017 | 3,926,491 | \$ 39,265 | \$ 11,532,207 | 1,087,217 | \$ (2,966,798) | \$ (3,536,186) | \$ 5,068,488 |
| Change in Accounting Principle - ASC 606 | | | | | | (13,991) | (13,991) |
| Share based compensation | | | 14,370 | | | | 14,370 |
| Issuance of Common Stock from Treasury | | | 4,427 | (5,661) | 15,448 | | 19,875 |
| Net income (loss) | | | | | | (179,647) | (179,647) |
| March 31, 2018 | 3,926,491 | \$ 39,265 | \$ 11,551,004 | 1,081,556 | \$ (2,951,350) | \$ (3,729,824) | \$ 4,909,095 |
| December 31, 2018 | 3,926,491 | \$ 39,265 | \$ 11,604,817 | 1,065,483 | \$ (2,907,490) | \$ (4,648,484) | \$ 4,088,108 |
| Share-based compensation | | | 29,862 | | | | 29,862 |
| Issuance of common stock from treasury | | | (2,562) | (11,200) | 30,562 | | 28,000 |
| Net loss | | | | | | (518,773) | (518,773) |
| March 31, 2019 | 3,926,491 | \$ 39,265 | \$ 11,632,117 | 1,054,283 | \$ (2,876,928) | \$ (5,167,257) | \$ 3,627,197 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|------------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net loss | \$ (518,773) | \$ (179,647) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 375,026 | 395,763 |
| Non-cash interest expense | 16,931 | 14,670 |
| Change in allowance for doubtful accounts | 831 | — |
| Share-based compensation expense | 57,862 | 34,245 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (442,265) | (496,324) |
| Inventories | (190,058) | 11,256 |
| Prepaid expenses and other current assets | 21,521 | 106,774 |
| Accounts payable | (200,811) | (155,701) |
| Accrued expenses and other current liabilities | 339,071 | 54,812 |
| Contract liabilities | (8,664) | 102,400 |
| Net cash provided by (used in) operating activities | (549,329) | (111,752) |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (105,727) | (95,536) |
| Net cash provided by (used in) investing activities | (105,727) | (95,536) |
| Cash flows from financing activities: | | |
| Proceeds from (payments on) revolving line of credit, net | 769,311 | (282,975) |
| Payments on term notes payable | (114,286) | (76,190) |
| Payments of debt issuance costs | — | (26,570) |
| Payments on subordinated debt | — | (350,000) |
| Net cash provided by (used in) financing activities | 655,025 | (735,735) |
| Net change in cash and cash equivalents | (31) | (943,023) |
| Cash and cash equivalents, beginning of period | 1,715 | 956,988 |
| Cash and cash equivalents, end of period | \$ 1,684 | \$ 13,965 |

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2019 | 2018 |
| <i>Supplemental Cash Flow Information</i> | | |
| Cash paid for interest | \$ 90,239 | \$ 82,342 |
| Non-cash activities: | | |
| Issuance of treasury stock for directors' fees | \$ 28,000 | \$ 19,875 |
| Adjustment to accumulated deficit for change in accounting principle (ASC 606) | — | \$ (13,991) |

See accompanying notes to condensed consolidated financial statements.

**Micron Solutions, Inc. and Subsidiary
Period Ended March 31, 2019**

Notes to the Condensed 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.

The financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, 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 on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 19, 2019.

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 at December 31, 2018 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, 2019, 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, 2019, the Company has \$1,684 of cash and approximately \$343,000 of borrowing capacity on its revolving line of credit. As a result of the above 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 the credit agreement. Revenue and cash flow forecasts are dependent on the Company's ability to fill booked orders from existing customers, its ability to close new and expanded business and to improve overall financial performance. Management also believes that it is probable that the Company will close on the sale of the vacant buildings, shown as assets held for sale on the consolidated balance sheets, on or about June 30, 2019 and the proceeds of approximately \$700,000 will be applied against the Company's revolver. Additionally, on March 7, 2019, the Company entered into the First Amendment to the Credit and Security Agreement in which the quarterly debt service coverage ratio measurement requirements for 2019 were amended to lessen the burden of compliance.

Based on management's analysis, the Company believes that cash flows from its operations, together with its existing working capital, booked orders, the sale of vacant buildings, its intent and ability to raise funds through existing investors, expense management, and its Revolver will be sufficient to fund operations at current levels and repay debt obligations over the next twelve months from the financial statements issuance date; however, there can be no assurance that the Company will be able to do so.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases," which requires a lessee to recognize lease liabilities for the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and right-of-use assets, representing the lessee's right to use, or to control the use of, specified assets for the lease term. The Company adopted the ASU January 1, 2019 and, based on its current portfolio of leases (which consists solely of an office equipment lease), no lease assets or liabilities have been recognized in these financial statements.

Management does not expect any recently issued, but not yet effective, accounting standards to have a material effect on its results of operations or financial conditions.

Micron Solutions, Inc. and Subsidiary
Period Ended March 31, 2019

Notes to the Condensed Consolidated Financial Statements (unaudited)

Revenue Recognition

During the three months ended March 31, 2019, the Company recognized as revenue \$122,610 of amounts recorded as Contract Liabilities at December 31, 2018.

2. Inventories

Inventories consist of the following:

| | March 31, 2019 | December 31, 2018 |
|-----------------|-------------------|----------------------|
| Raw materials | \$ 1,181,520 | \$ 1,079,887 |
| Work-in-process | 949,342 | 1,105,272 |
| Finished goods | 1,785,860 | 1,499,900 |
| Total | \$ 3,916,721 | \$ 3,685,059 |

Silver included in raw materials, work-in-process and finished goods inventory had an estimated cost of \$588,263 and \$461,272 as of March 31, 2019 and December 31, 2018, respectively.

3. Property, Plant and Equipment, net

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

| | Asset Lives (in years) | March 31, 2019 | December 31, 2018 |
|---|---------------------------|-------------------|----------------------|
| Machinery and equipment | 3 to 15 | \$ 18,061,341 | \$ 17,978,781 |
| Building and improvements | 5 to 25 | 3,991,951 | 3,991,951 |
| Vehicles | 3 to 5 | 98,119 | 98,119 |
| Furniture, fixtures, computers and software | 3 to 5 | 1,459,608 | 1,440,071 |
| Construction in progress | | 140,321 | 168,094 |
| Total property, plant and equipment | | 23,751,340 | 23,677,016 |
| Less: accumulated depreciation | | (18,918,857) | (18,545,243) |
| Property, plant and equipment, net | | \$ 4,832,482 | \$ 5,131,773 |

Construction in progress is generally comprised of internal tooling in process.

For the three months ended March 31, 2019 and 2018, the Company recorded depreciation expense of \$373,614 and \$394,787, respectively.

4. Assets Held for Sale

In January 2016, the Company entered into a Purchase and Sale Agreement with a Buyer (collectively the "Parties") to sell two unoccupied buildings, with a total of approximately 52,000 square feet, and land, at its Fitchburg, Massachusetts campus. As a result, the Company has since classified the property as Assets Held for Sale. The carrying value of \$688,750 approximates the fair value less the expected cost to sell.

The Parties have since entered into multiple amendments which provided for, among other things, an extension of the expiration date of the agreement to June 2019 in exchange for monthly extension fees. The closing is expected to take place by the end of June 2019.

Micron Solutions, Inc. and Subsidiary
Period Ended March 31, 2019

Notes to the Condensed Consolidated Financial Statements (unaudited)

5. Debt

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

| | March 31, 2019 | December 31, 2018 |
|--|-------------------|----------------------|
| Revolving line of credit | \$ 2,794,903 | \$ 2,025,592 |
| Total term notes payable, net of issuance costs | \$ 3,849,523 | \$ 3,946,878 |
| Less current portion, net | 389,420 | 389,420 |
| Term notes payable, non-current, net | 3,460,103 | 3,557,458 |
| Total short and long term debt, net | \$ 6,644,426 | \$ 5,972,470 |

Availability to borrow under the Revolver is based on conditions defined in the credit agreement and amounts to \$342,711 at March 31, 2019. The interest rate at March 31, 2019 was 5.74%.

The interest rate on the Term Notes at March 31, 2019 was 5.99%.

6. Income Taxes

As of March 31, 2019, The Company continues to maintain a valuation allowance against all of its domestic and foreign deferred tax assets, except for its AMT Credit carryforward, which is treated as a refundable attribute under the new tax law.

At March 31, 2019, the Company has federal and state net operating loss carryforwards totaling \$11,300,000 and \$12,195,000, respectively, which begin to expire in 2031. The Company also has federal and state tax credit carryovers of \$306,000 and \$278,000 respectively. The federal and state tax credits begin to expire in 2027 and 2019, respectively.

7. Commitments and Contingencies

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.

Off-balance sheet arrangements

Lease expense under all operating leases for the three months ended March 31, 2019 and 2018 was \$6,056 and \$5,913 respectively.

Micron Solutions, Inc. and Subsidiary
Period Ended March 31, 2019

Notes to the Condensed Consolidated Financial Statements (unaudited)

8. Shareholders' Equity

Stock options and share-based incentive plan

The following table sets forth the stock option transactions for the year ended March 31, 2019:

| | Number of options | Weighted Average Exercise Price | Weighted average remaining contractual term (in years) | Aggregate Intrinsic Value |
|----------------------------------|----------------------|--|--|---------------------------------|
| Outstanding at December 31, 2018 | 393,500 | \$ 4.89 | 7.22 | \$ 960 |
| Granted | 7,500 | 2.72 | | |
| Forfeited | (44,335) | 4.08 | | |
| Outstanding at March 31, 2019 | 356,665 | \$ 4.95 | 6.08 | \$ 3,435 |
| Exercisable at March 31, 2019 | 205,487 | \$ 5.93 | 5.93 | \$ 2,760 |
| Exercisable at December 31, 2018 | 182,164 | \$ 6.09 | 4.81 | \$ 960 |

For the three months ended March 31, 2019 and 2018, share based compensation expense related to stock options amounted to \$27,689 and \$14,370, respectively. Share based compensation is included in general and administrative expenses.

For the three months ended March 31, 2019, 7,500 options were granted with a fair value of \$1.37 per share, no options were exercised, 44,335 options were forfeited due to employee terminations and no options expired. For the three months ended March 31, 2018, 90,000 were granted with a fair value of \$0.50 per share, no options were exercised and no options were forfeited or expired.

Unrecognized stock based compensation expense related to stock options as of March 31, 2019 and 2018 was \$132,523 and \$110,490, respectively.

In March, 2019, the Company issued 15,000 restricted stock units with a fair value of \$3.20 per share which vest on the one year anniversary of the grant. For the three months ended March 31, 2019 and 2018, share based compensation expense related to restricted stock units amounted to \$2,173 and \$0, respectively.

Unrecognized stock based compensation related to restricted stock units as of March 31, 2019 and 2018 was \$45,827 and \$0, respectively.

Common Stock

For the three months ended March 31, 2019, the Company issued 11,200 shares of the Company's common stock, with a fair value of \$28,000 for director fees in lieu of cash payments. For the three months ended March 31, 2018, the Company issued 5,661 shares of the Company's common stock, with a fair value of \$19,875 for director fees in lieu of cash payments.

9. Subsequent Events

Changes in Officers and Directors

On March 19, 2019, Mr. Derek T. Welch, the Company's Chief Financial Officer tendered his resignation which was effective April 22, 2019. Upon his resignation, Mr. Laursen, the Company's President and Chief Executive Officer was appointed Treasurer and principal financial and accounting officer.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve a number of risks and uncertainties. There are a number of factors that could cause the Company's actual results to differ materially from those forecasted or projected in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. 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 subsidiary, Micron Products, Inc. ("Micron" and together with Micron Solutions, the "Company"), is a diversified contract manufacturing organization ("CMO") that produces highly-engineered, innovative medical device components requiring precision machining and injection molding. The Company also manufactures components, devices and equipment for military, law enforcement, automotive and consumer product applications. The Company is engaged in the production and sale of silver/silver chloride coated and conductive resin sensors used as consumable component parts in the manufacture of integrated disposable electrophysiological sensors. These disposable medical devices are used worldwide in the monitoring of electrical signals in various medical applications. The Company's machining operations produce quick-turn, high volume patient-specific and off-the-shelf orthopedic implants and instruments. The Company's machining operations also include laser marking, automated polishing, passivation and coating. The Company has thermoplastic injection molding capabilities as well, and provides a full array of design, engineering, production services and management. The Company competes globally, with approximately forty-five percent of its revenue derived from exports.

Critical Accounting Policies

The critical accounting policies utilized by the Company in preparation of the accompanying financial statements are set forth in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2018, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". There have been no material changes to these policies since December 31, 2018.

Liquidity and Management's Plan

At March 31, 2019, 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, 2019, the Company has \$1,684 of cash and approximately \$343,000 of borrowing capacity on its revolving line of credit. As a result of the above 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 the credit agreement. Revenue and cash flow forecasts are dependent on the Company's ability to fill booked orders from existing customers, its ability to close new and expanded business and to improve overall financial performance. Management also believes that it is probable that the Company will close on the sale of the vacant buildings, shown as assets held for sale on the consolidated balance sheets, on or about June 30, 2019 and the proceeds of approximately \$700,000 will be applied against the Company's revolver. Additionally, on March 7, 2019, the Company entered into the First Amendment to the Credit and Security Agreement in which the quarterly debt service coverage ratio measurement requirements for 2019 were amended to lessen the burden of compliance.

Based on management's analysis, the Company believes that cash flows from its operations, together with its existing working capital, booked orders, the sale of vacant buildings, its intent and ability to raise funds through existing investors, expense management, and its Revolver will be sufficient to fund operations at current levels and repay debt obligations over the next twelve months from the financial statements issuance date; however, there can be no assurance that the Company will be able to do so.

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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, | |
| | 2019 | 2018 |
| Net sales | 100.0 % | 100.0 % |
| Cost of sales | 86.0 | 85.7 |
| Gross profit | 14.0 | 14.3 |
| Selling and marketing | 3.2 | 3.7 |
| General and administrative | 18.9 | 11.8 |
| Research and development | 0.6 | 0.5 |
| Other expense | 2.4 | 1.7 |
| Loss before income tax provision (benefit) | (11.1) | (3.4) |
| Income tax provision (benefit) | — | — |
| Net loss | (11.1) % | (3.4) % |

Net Sales

| Net sales | 2019 | 2018 | \$ Change | % Change |
|------------------------------|--------------|--------------|--------------|----------|
| Three months ended March 31, | \$ 4,685,630 | \$ 5,119,048 | \$ (433,418) | (8.5)% |

The decrease in consolidated net sales for the three months ended March 31, 2019 versus the prior year period was due primarily to a decrease in net sales of sensors, machined components and thermoplastic injection molding. This was partly offset by increased net tooling sales.

Gross Profit

| Gross profit | 2019 | 2018 | \$ Change | % Change |
|------------------------------|------------|------------|-------------|----------|
| Three months ended March 31, | \$ 653,827 | \$ 731,360 | \$ (77,533) | (10.6)% |
| As a percentage of sales | 14.0% | 14.3% | | |

The decrease in consolidated gross profit for the three months ended March 31, 2019 versus the prior year period was due to a decrease in gross profit from machined components and sensors partly offset by higher gross profit from thermoplastic injection molding.

Gross profit expressed as a percentage of sales from machined components decreased 16.4 percentage points. Despite lower net sales and lower gross profit, gross profit as a percentage of sales from thermoplastic injection molding and sensors improved by 10.0 and 1.4 percentage points, respectively.

Selling and Marketing

The Company's consolidated selling and marketing expenses amounted to \$149,142 (3.2% of net sales) for the three months ended March 31, 2019 as compared to \$190,540 (3.7% of net sales) for the three months ended March 31, 2018, a decrease of \$41,398 or 21.7%. For the three months ended March 31, 2019, the decrease was primarily due to lower marketing, advertising and professional fees related in part to lower costs related to online lead generation programs. Additionally, compensation was lower due to the departure of a salesperson in the first quarter 2019.

General and Administrative

The Company's consolidated general and administrative expenses was \$884,875 (18.9% of net sales) for the three months ended March 31, 2019 as compared to \$604,035 (11.8% of net sales) for the three months ended March 31, 2018, an increase of \$280,840, or 46.5%.

The increase in general and administrative expenses for the three months ended March 31, 2019 when compared to 2018 is due primarily to several changes in upper management and to the recording of severance pay for the outgoing COO.

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Research and Development

The Company's consolidated research and development expenses decreased to \$27,177 (0.6% of net sales) for the three months ended March 31, 2019 as compared to \$27,921 (0.5% of net sales) for the three months ended March 31, 2018, a decrease of \$744, or 5.3%.

Other Expense, net

Other expense, net increased to \$111,406 for the three months ended March 31, 2019, as compared to \$88,511, for the three months ended March 31, 2018, an increase of \$22,895. The increase in other expense, net was due largely to a \$13,965 increase in interest expense.

Income Tax Provision

The tax provisions for the three and year ended March 31, 2019 and 2018 attributable to the U.S. federal and state income taxes are \$0. The Company's combined federal and state effective income tax rate for the three and year ended March 31, 2019 and 2018 of 0% is due to the deferred tax assets being nearly fully reserved for with a valuation allowance.

Earnings (Loss) Per Share

Consolidated basic and diluted loss per share for the three months ended March 31, 2019 was \$0.18 per share as compared to a loss of \$0.06 per share for the same period in 2018, an increase in loss per share of \$0.12. The increase in loss per share for the three months ended March 31, 2019, is due in part to decreased net sales of \$443,418, decreased gross profit of \$77,533 and an increase of \$238,698 in operating expenses.

Off-Balance Sheet Arrangements

Lease expense under all operating leases for the three months ended March 31, 2019 and 2018 was \$6,056 and \$5,913 respectively.

Liquidity and Capital Resources

Working capital was \$2,197,934 as of March 31, 2019, as compared to \$2,455,498 at December 31, 2018, a decrease of \$257,564. The decrease in working capital is due primarily to operating losses with an increase in the revolver and an increase in accrued expenses and other current liabilities partly offset by increases in accounts receivable and inventory.

Trade accounts receivable, net of allowance for doubtful accounts, were \$2,767,238 and \$2,325,804 at March 31, 2019 and December 31, 2018, respectively, an increase of \$441,434. The increase is due largely to higher sales in the first quarter of 2019 compared to the fourth quarter of 2018.

Inventories increased by \$190,058 from December 31, 2018 to March 31, 2019, due in large part to the lower than anticipated sales of Sensors at the end of the quarter.

Accounts payable decreased from December 31, 2018 to March 31, 2019, related to lower sales in the quarter. Accrued expenses and other current liabilities increased primarily due to a severance arrangement with a former officer of the company, non-cash incentive compensation accruals, and increased accrued commissions for new programs including amounts for new outside sales representatives.

Capital equipment expenditures were \$105,727 for the three months ended March 31, 2019. A majority of the first quarter capital expenditures related to internal tooling projects as well as for robotic automation in custom molding.

At March 31, 2019, the Company's total debt was \$6,644,426 as compared to \$5,972,470 at December 31, 2018, an increase of \$671,956. The increase is due to borrowings of \$769,311 on the revolving line of credit partly offset by payments on term notes.

Amounts available to borrow under the Revolver are \$342,711 at March 31, 2019.

No dividends were declared or paid in the three months ended March 31, 2019 or 2018, respectively.

The Company believes that cash flows from its operations, together with its existing working capital, booked orders, the sale of the vacant buildings, expense management, and its Revolver, will be sufficient to fund operations at current levels and repay debt obligations over the next twelve months from the date these financial statements were issued; however, there can be no assurance that the Company will be able to do so.

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Summary of Changes in Cash Position

As of March 31, 2019, the Company had cash on hand of \$1,684, as the Company's cash is swept daily against the Revolver in accordance with the Company's credit agreement. For the three months ended March 31, 2019 net cash used in operating activities was \$549,329. Net cash used in investing activities for the three months ended March 31, 2019 was \$105,727. Net cash provided by financing activities for the year ended March 31, 2019 was \$655,025. The net cash flows for the three months ended March 31, 2019 are discussed in further detail below.

Operating Cash Flows

For the three months ended March 31, 2019, net cash used in operating activities was \$549,329. Cash used in operating activities was primarily the result of the net loss, as well as increases in accounts receivable and inventory and a decrease in accounts payable, partially offset by an increase in accrued expenses and other current liabilities as well as non-cash addbacks, primarily depreciation and amortization.

Investing Cash Flows

For the three months ended March 31, 2019, net cash used in investing activities was \$105,727. The net cash used was for capital expenditures largely due to internal tooling and robotic automation in custom molding.

Financing Cash Flows

For the three months ended March 31, 2019, net cash provided by financing activities was \$655,025, primarily due to net draws on the revolver, partially offset by payments on term notes.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer ("the Certifying Officer") has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on such evaluation, our Certifying Officer has concluded the Company's disclosure controls and procedures, as of the end of the period covered by this report, were effective.

The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of internal controls, and fraud. Due to such inherent limitations, there can be no assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud, or in making all material information known in a timely manner to the appropriate levels of management.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2019, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 6. Exhibit Index

| <u>Exhibit Number</u> | <u>Description of Exhibit</u> | <u>Page</u> |
|---------------------------|---|-------------|
| 3.0 | Certificate of Incorporation (incorporated by reference to the Company's Registration Statement on Form S-18 as filed with the Commission in April 1988, Registration Statement No. 33-20945-FW). | |
| 3.1 | Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the Commission on July 1, 2011). | |
| 3.2 | Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q as filed with the Commission on August 13, 2015). | |
| 4.0 | Form of Certificate evidencing shares of the Company's Common Stock (incorporated by reference to the Company's Registration Statement on Form S-18 as filed with the Commission in April 1988, Registration Statement No. 33-20945-FW). | |
| 4.1 | Certificate of Amendment of Certificate of Incorporation dated March 8, 2017 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on March 14, 2017). | |
| 4.10* | 2010 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 as filed with the Commission on May 6, 2010, Registration Statement No. 333-166600). | |
| 4.11 | Form of Subordinated Note (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on December 23, 2013). | |
| 4.12 | Form of Subordination Agreement (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the Commission on December 23, 2013) | |
| 4.13 | Form of Warrant to Purchase Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K as filed with the Commission on December 23, 2013). | |
| 4.14 | Form of Amended and Restated Subordinated Promissory Note (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on October 17, 2016). | |
| 4.15 | Form of Amendment No. 1 to Warrant to Purchase Shares of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K as filed with the Commission on October 17, 2016). | |
| 10.51 | Loan and Security Agreement between UniBank for Savings and Arrhythmia Research Technology, Inc. and Micron Products, Inc. dated March 29, 2013 (incorporated by reference to Exhibit 10.51 to the Company's Quarterly Report on Form 10-Q as filed with the Commission on July 1, 2013). | |
| 10.61 | Fourth Amendment to Loan and Security Agreement and Commercial Equipment Line of Credit Promissory Note dated September 19, 2015 (incorporated by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q as filed with the Commission on August 13, 2015). | |
| 10.62 | Fifth Amendment to Loan and Security Agreement dated as of November 15, 2016 (incorporated by reference to Exhibit 10.62 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017). | |
| 10.63 | Commercial Term Promissory Note dated November 15, 2016 (incorporated by reference to Exhibit 10.63 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017). | |
| 10.64 | Commercial Equipment Line of Credit Promissory Note dated November 15, 2016 (incorporated by reference to Exhibit 10.64 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017). | |
| 10.65* | Executive Incentive Plan (incorporated by reference to Exhibit 10.65 to the Company's Current Report on Form 8-K as filed with the Commission on December 6, 2016). | |
| 10.66* | Employment Agreement between the Company and Salvatore Emma, Jr. dated as of January 1, 2017 (incorporated by reference to Exhibit 10.66 to the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017). | |
| 10.67* | Employment Agreement between the Company and Derek T. Welch dated as of January 1, 2017 (incorporated by reference to Exhibit 10.67 to the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017). | |
| 10.68 | Sixth Amendment to Loan and Security Agreement dated September 16, 2017 (incorporated by reference to Exhibit 10.68 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 as filed with the Commission on August 11, 2017). | |
| 10.69 | Forbearance Agreement between UniBank for Savings, Micron Solutions, Inc. and Micron Products, Inc. dated September 29, 2017 (incorporated by reference to Exhibit 10.69 to the Company's Quarterly | |

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|---------------------------------|---|-----|
| | <u>Report on Form 10-Q for the quarter ended September 30, 2017, as filed with the Commission on November 13, 2017).</u> | |
| <u>10.70</u> | <u>Credit and Security Agreement between Micron Products, Inc. and Rockland Trust Company dated December 29, 2017 (incorporated by reference to Exhibit 10.70 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).</u> | |
| <u>10.71</u> | <u>General Security Agreement between the Company and Rockland Trust Company dated December 29, 2017 (incorporated by reference to Exhibit 10.71 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).</u> | |
| <u>10.72</u> | <u>Mortgage, Security Agreement and Financing Statement entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.72 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).</u> | |
| <u>10.73</u> | <u>M&E Term Loan Note entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.73 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).</u> | |
| <u>10.74</u> | <u>Real Estate Term Loan Note entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.74 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).</u> | |
| <u>10.75</u> | <u>Revolver Note entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.75 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).</u> | |
| <u>10.76</u> | <u>General Continuing Guarantee entered into by the Company dated as of December 29, 2017 (incorporated by reference to Exhibit 10.76 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).</u> | |
| <u>10.77*</u> | <u>Employment Agreement between the Company and Salvatore Emma, Jr. dated as of October 29, 2018 (incorporated by reference to Exhibit 10.77 to the Current Report on Form 8-K filed with the Commission on November 2, 2018).</u> | |
| <u>10.78*</u> | <u>Employment Agreement between the Company and William J. Laursen dated as of October 29, 2018 (incorporated by reference to Exhibit 10.78 to the Current Report on Form 8-K filed with the Commission on November 2, 2018).</u> | |
| <u>10.79</u> | <u>First Amendment to the Credit and Security Agreement between Micron Products, Inc and Rockland Trust Company dated March 7, 2019 (incorporated by reference to Exhibit 10.79 to the Company's Current Report on Form 8-K filed with the Commission on March 12, 2019).</u> | |
| <u>21</u> | <u>Subsidiaries (incorporated by reference to Exhibit 21.0 to the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2010 as filed with the Commission on March 23, 2011).</u> | |
| <u>31.1**</u> | <u>Certification of the CEO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)</u> | X-1 |
| <u>32.1**</u> | <u>Certification of the CEO pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | X-2 |
| <u>101.INS†</u> | <u>XBRL Instance Document</u> | |
| <u>101.SCH†</u> | <u>XBRL Taxonomy Extension Schema Document</u> | |
| <u>101.CAL†</u> | <u>XBRL Taxonomy Extension Calculation Linkbase Document</u> | |
| <u>101.PRE†</u> | <u>XBRL Taxonomy Extension Presentation Linkbase Document</u> | |
| <u>101.DEF†</u> | <u>XBRL Taxonomy Extension Definition Linkbase Document</u> | |

*Indicates a management contract or compensatory plan required to be filed as an exhibit.

**Filed herewith

† XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

MICRON SOLUTIONS, INC.

May 15, 2019

By: /s/ William J. Laursen

William J. Laursen

President and Chief Executive Officer

(principal executive officer and principal financial and
accounting officer)
