

MICRON SOLUTIONS, INC.

State of Incorporation:
Delaware

25 Sawyer Passway
Fitchburg, MA 01420

Telephone: (978) 345-5000
Corporate Website: www.micronsolutionsinc.com

SIC Code: 3845

Quarterly Report

For the period ending June 30, 2022 (the "Reporting Period")

The number of shares outstanding of our Common Stock is 3,130,242 as of June 30, 2022.

The number of shares outstanding of our Common Stock was 3,085,742 as of December 31, 2021.

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, inflation, recession, 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 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 effects 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 Quarterly Report for the fiscal quarter ended March 31, 2022 and the Company's most recent Annual Report for the fiscal year ended December 31, 2021, which are available for investors at otcm Markets.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)

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Investor Relations:

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Item 2 Shares outstanding

As of June 30, 2022					
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	1,700,773	668	177
As of December 31, 2021					
	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
As of December 31, 2020					
	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 six months ended June 30, 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.

For the six months ended June 30, 2022, the Company granted 44,500 shares of Common Stock to the members of the Board of Directors as partial compensation for their 2022 services.

List of Securities Offerings and Shares Issued for Services for the Quarter Ended June 30, 2022

There were no events resulting in direct changes to the Company's total shares outstanding for the quarter ended June 30, 2022. Nor were there any securities or options to acquire shares issued for the quarter ended June 30, 2022.

Item 3 Interim financial statements.

See Micron Solutions, Inc., and Subsidiary Consolidated Financial Statements for the Quarters Ended June 30, 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 Three and Six Months Ended June 30, 2022.

Financial Statement	Micron Solutions, Inc., and Subsidiary Consolidated Financial Statements for the three months ended June 30, 2022 and 2021 Page Reference
Condensed Interim Consolidated Statements of Financial Position (unaudited)	8
Condensed Interim Consolidated Statements of Income (unaudited)	9
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Item 4 Management's discussion and analysis or plan of operation.

See Management's Discussion and Analysis for the three months ended June 30, 2022 and the six months ended June 30, 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.

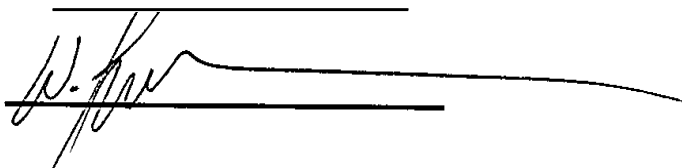
There have been no amendments to any exhibits previously attached to a disclosure statement.

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 June 30, 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: August 8, 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 June 30, 2022;

1. 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

2. 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: August 8, 2022



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)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,658	\$ 13,746
Restricted cash	150,000	150,000
Trade accounts receivable, net of allowance for doubtful accounts of \$43,169 at June 30, 2022 and at December 31, 2021	3,164,957	2,467,530
Inventories	2,857,257	3,002,124
Prepaid expenses and other current assets	284,039	372,503
Total current assets	6,460,911	6,005,903
Property, plant and equipment, net	2,116,649	2,471,708
Intangible assets, net	32,436	35,315
Right of use operating lease	3,166,999	3,317,049
Other assets	89,160	89,160
Total assets	\$ 11,866,155	\$ 11,919,135
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving line of credit	\$ 1,014,015	\$ —
Equipment line of credit, current portion, net	69,499	—
Accounts Payable	1,130,787	769,048
Accrued expenses and other current liabilities	738,205	810,246
Contract liabilities	446,958	978,055
Operating lease liability, current portion	302,884	302,884
Total current liabilities	3,702,348	2,860,233
Long-term liabilities:		
Equipment line of credit, non-current portion	303,200	334,890
Lease liability, non-current portion	2,864,115	3,014,165
Total long-term liabilities	3,167,315	3,349,055
Total liabilities	6,869,663	6,209,288
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, 3,130,342 and 3,085,742 shares outstanding at June 30, 2022 and December 31, 2021, respectively	39,265	39,265
Additional paid-in-capital	11,976,261	11,879,895
Treasury stock at cost, 796,249 and 840,749 shares as at June 30, 2022 and December 31, 2021, respectively	(2,173,089)	(2,294,520)
Accumulated deficit	(4,845,945)	(3,914,793)
Total shareholders' equity	4,996,492	5,709,847
Total liabilities and shareholders' equity	\$ 11,866,155	\$ 11,919,135

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net sales	\$ 6,536,326	\$ 5,389,735	\$ 11,219,595	\$ 11,150,759
Cost of sales	5,626,185	4,952,006	9,912,141	9,783,294
Gross profit	910,142	437,729	1,307,454	1,367,465
Selling and marketing	193,088	85,450	374,543	203,526
General and administrative	903,646	722,969	1,819,522	1,376,182
Total operating expenses	1,096,734	808,419	2,194,066	1,579,708
Income (loss) from operations	(186,592)	(370,690)	(886,612)	(212,243)
Other income (expense):				
Interest expense	(34,204)	(40,434)	(61,170)	(84,182)
Other income, net	10,000	3,423,726	18,000	3,423,965
Total other income (expense), net	(24,204)	3,383,292	(43,170)	3,339,784
Net income (loss) before income tax provision (benefit)	(210,797)	3,012,602	(929,782)	3,127,541
Income tax provision (benefit)	—	—	1,368	—
Net income	\$ (210,797)	\$ 3,012,602	(931,150)	3,127,541
Weighted average common shares outstanding - basic	3,130,242	3,038,507	3,130,242	3,038,507
Earnings (loss) per share - basic	(\$0.07)	\$0.99	(\$0.30)	\$1.03
Weighted average common shares outstanding, diluted	3,302,901	3,407,113	3,302,901	3,400,613
Earnings per share - diluted	\$ (0.06)	\$ 0.88	\$ (0.28)	\$ 0.92

See accompanying notes to condensed consolidated financial statements.

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

	Common stock		Paid-in capital	Treasury stock		Accumulated		Total
	Shares	Amount		Shares	Amount	deficit		
December 31, 2020	3,926,491	\$ 39,265	\$ 11,746,032	932,484	\$ (2,544,846)	\$ (5,641,729)		\$ 3,558,574
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
March 31, 2021	3,926,491	\$ 39,265	\$ 11,802,685	887,984	\$ (2,423,415)	\$ (5,526,790)		\$ 3,851,597
Share-based compensation			42,406			3,012,602		42,406
Net income						3,012,602		3,012,602
June 30, 2021	3,926,491	\$ 39,265	\$ 11,845,091	887,984	\$ (2,423,415)	\$ (2,514,188)		\$ 12,557,817
								—
December 31, 2021	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)
March 31, 2022	3,926,491	\$ 39,265	\$ 11,939,180	796,249	\$ (2,173,089)	\$ (4,635,148)		\$ 5,170,208
Share-based compensation			37,081					37,081
Net income						(210,797)		(210,797)
June 30, 2022	3,926,491	\$ 39,265	\$ 11,976,261	796,249	\$ (2,173,089)	\$ (4,845,945)		\$ 4,996,493

See accompanying notes to condensed consolidated financial statements.

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

Six Months Ended					
June 30,					
			2022	2021	
Cash flows from operating activities:					
Net income (loss)		\$	(931,150)	\$	3,127,541
Adjustments to reconcile net loss to net cash provided by (used in)					
Gain on sale of property, plant and equipment			(18,000)		(3,424,215)
Depreciation and amortization			444,476		589,344
Non-cash interest expense			36,180		5,972
Share-based compensation expense			217,797		220,490
Changes in operating assets and liabilities:					
Accounts receivable			(697,427)		1,146,076
Inventories			144,867		(27,643)
Prepaid expenses and other assets			88,464		(472)
Accounts payable			361,739		486,040
Accrued expenses and other current liabilities			(72,041)		84,326
Contract liabilities			(531,097)		(25,691)
Net cash provided by (used in) operating activities			(956,192)		2,181,768
Cash flows from investing activities:					
Purchases of property, plant and equipment			(84,911)		(422,057)
Proceeds from sale of property, plant and equipment			18,000		3,868,945
Net cash provided by (used in) investing activities			(66,911)		3,446,888
Cash flows from financing activities:					
Proceeds (payments) on revolving line of credit, net			1,014,015		(836,718)
Proceeds from new revolving line of credit					(3,166,667)
Net cash provided by (used in) financing activities			1,014,015		(4,003,385)
Net change in cash and cash equivalents			(9,088)		1,625,271
Cash and cash equivalents, beginning of period			13,746		570
Cash and cash equivalents, end of period		\$	4,658	\$	1,625,841

Six Months Ended					
June 30,					
Supplemental Cash Flow Information			2022		2021
Cash paid for interest		\$	13,890	\$	80,229
Non-cash activities:					
Issuance of treasury stock for directors' fees		\$	148,630	\$	148,630
Recognition of right of use asset			—		3,459,214
Recognition of right of use lease liability (current plus non-current portions)		\$	—	\$	(3,459,214)

See accompanying notes to condensed consolidated financial statements.

Micron Solutions, Inc. and Subsidiary
Period Ended June 30, 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 June 30, 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 June 30, 2022, the Company has approximately \$2,500,000 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 June 30, 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:

		June 30, 2022		December 31, 2021
Raw materials	\$	865,703	\$	860,948
Work-in-process		1,517,821		1,647,950
Finished goods		473,734		493,226
Total	\$	2,857,257	\$	3,002,124

3. Property, Plant and Equipment, net

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

		Asset Lives (in years)		June 30, 2022		December 31, 2021
Machinery and equipment	3	to	15	\$ 17,598,835	\$	18,436,842
Building and improvements	5	to	25	1,555,070		1,583,827
Vehicles	3	to	5	97,196		100,096
Furniture, fixtures, computers and software	3	to	5	1,366,016		2,024,740
Construction in progress				90,788		468,052
Total property, plant and equipment				20,707,904		22,613,557
Less: accumulated depreciation				(18,591,255)		(20,141,849)
Property, plant and equipment, net				\$ 2,116,649	\$	2,471,708

For the three months ended June 30, 2022 and 2021, the Company recorded depreciation expense of \$217,872 and \$290,266, respectively. For the six months ended June 30, 2022 and 2021, the Company recorded depreciation expense of \$443,077 and \$586,031, respectively.

4. Sale-leaseback

On May14, 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

Micron Solutions, Inc. and Subsidiary
Period Ended June 30, 2022

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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:

	June 30, 2022	December 31, 2021
Revolving line of credit	\$ 1,014,015	\$ —
Equipment line of credit	\$ 379,000	\$ 379,000
Less current portion, net	(1,089,815)	—
Bank Debt, non-current	303,200	—
Total long term debt, net	1,393,015	379,000
Less: Debt discounts	(6,301)	(44,110)
Total short and long term debt, net	\$ 1,386,714	\$ 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.

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

Micron Solutions, Inc. and Subsidiary
Period Ended June 30, 2022

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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 3.66% at June 30, 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 \$2,483,507 as of June 30, 2022.

Equipment Line of Credit

Through June 30, 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% (5.25% at June 30, 2022). On June 30, 2022 the outstanding balance of the Equipment Line of Credit was converted to a five year term loan at a variable rate of interest equal to the Prime Rate.

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 June 30, 2022 and \$37,809 for the six months ended June 30, 2022.

6. Income Taxes

As of June 30, 2022, the Company continues to maintain a valuation allowance against its deferred tax assets.

As of June 30, 2022, 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. Related costs to date are included in accrued expenses on the consolidated balance sheet at June 30, 2022.

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.

Micron Solutions, Inc. and Subsidiary
Period Ended June 30, 2022

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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 2023.

Lease expense under all operating leases, for the three months ended June 30, 2022 and 2021 was \$104,094 and \$35,918 respectively. Lease expense under all operating leases for the six months ended June 30, 2022 and 2021 was \$208,957 and \$40,803 respectively.

Future minimum lease payments are as follows:

2022	\$201,817
2023	\$397,634
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 six months ended June 30, 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		1.75		
Exercised		—				
Forfeited		(2,000)		3.81		
Expired		—				
Outstanding at June 30, 2022		398,500	\$	2.99	\$	51,600
Exercisable at June 30, 2022		184,500	\$	3.13	\$	51,600
Exercisable at December 31, 2021		185,938	\$	3.14	\$	79,683

Micron Solutions, Inc. and Subsidiary
Period Ended June 30, 2022

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

The following table sets forth restricted stock unit activity for the six months ended June 30, 2022:

				Weighted
				Average
		Number of		Grant Date
		options		Fair Value
Outstanding at December 31, 2021		14,128	\$	3.15
Granted		—		
Exercised		—	\$	3.15
Outstanding at June 30, 2022		14,128	\$	3.15
Exercisable at June 30, 2022		10,159	\$	3.15
Exercisable at December 31, 2021		10,131	\$	3.15

For the three months ended June 30, 2022 and 2021, share based compensation expense related to stock options amounted to \$37,081 and \$19,916, respectively. For the six months ended June 30, 2022 and 2021, share based compensation expense related to stock options amounted to \$69,166 and \$41,092, respectively. Share based compensation is included in general and administrative expenses.

For the three months ended June 30, 2022, no stock options were granted, none were exercised, none were forfeited, and none expired. For the three months ended June 30, 2021, no options were granted, none were exercised, none were forfeited, and none expired. For the six months ended June 30, 2022, 159,000 stock options were granted, none were exercised, 2,000 options were forfeited due to an employee termination, and none expired. For the six months ended June 30, 2021, 10,000 stock options were granted, none were exercised, none were forfeited, and none expired.

Unrecognized stock-based compensation expense related to stock options as of June 30, 2022 and 2021 was \$523,959 and \$79,359, 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 June 30, 2022 and 2021, share based compensation expense related to restricted stock units amounted to \$0 and \$10,973, respectively. For the six months ended June 30, 2022 and 2021, share based compensation expense related to restricted stock units amounted to \$88 and \$21,825, respectively. Unrecognized stock-based compensation expense related to restricted stock units was \$0 as of June 30, 2022 and \$22,434 as of June 30, 2021.

Common Stock

There were no issuances of Common Stock for the three months ended June 30, 2022 nor for the three months ended June 30, 2021. For the six months ended June 30, 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 six months ended June 30, 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.

Micron Solutions, Inc. and Subsidiary
Period Ended June 30, 2022

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

9. Subsequent Events

Shares Issued to Key Employees

In July 2021, the Company issued 29,761 shares of the Company's common stock from Treasury, pursuant to the Key Employee Stock Purchase Plan for proceeds of \$75,000.

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, inflation, recession, 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. Management believes there have been no significant changes for the six months ended June 30, 2022 to the items that we disclosed as critical accounting estimates in our Annual Report for the fiscal year ended December 31, 2021.

Liquidity and Management's Plan

At June 30, 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 June 30, 2022, the Company has approximately \$2,500,000 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 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						Six Months Ended					
				June 30,						June 30,		
	2022			2021			2022			2021		
Net sales		100.0	%		100.0	%		100.0	%		100.0	%
Cost of sales		86.1			91.9			88.3			87.7	
Gross profit		13.9			8.1			11.7			12.3	
Selling and marketing		3.0			1.6			3.3			1.8	
General and administrative		13.8			13.4			16.2			12.3	
Other expense		0.4			(62.8)			0.4			(30.0)	
Loss before income tax provision (benefit)		(3.3)			55.9			(8.2)			28.2	
Income tax provision (benefit)		—			—			—			—	
Net income (loss)		(3.3)	%		55.9	%		(8.2)	%		28.2	%

Net Sales and Gross Profit

Net sales	2022	2021	\$ Change	% Change
Three months ended June 30	\$ 6,536,326	\$ 5,389,735	\$ 1,146,591	21.3%
Gross profit	2022	2021	\$ Change	% Change
Three months ended June 30	\$ 910,142	\$ 437,729	\$ 472,413	107.9%
As a percentage of sales	13.9%	8.1%		

The increase in consolidated net sales for the three months ended June 30, 2022 versus the same prior year period was due to increases in sales of tooling and non-recurring engineering services, sensors, and assembly sales, partially offset by decreases in custom molding and machining sales.

The increase in consolidated gross profit of \$472,413 for the three months ended June 30, 2022 versus the same prior year period, was attributable to the increase in sales.

Net sales	2022	2021	\$ Change	% Change
Six months ended June 30	\$ 11,219,595	\$ 11,150,759	\$ 68,836	0.6%
Gross profit	2022	2021	\$ Change	% Change
Six months ended June 30	\$ 1,307,454	\$ 1,367,465	\$ (60,011)	(4.4)%
As a percentage of sales	11.7%	12.3%		

The increase in consolidated net sales for the six months ended June 30, 2022 versus the same prior year period was due to increases in sales of tooling and non-recurring engineering services, sensors, and assembly sales, offset by decreases in custom molding and machining sales.

The decrease in consolidated gross profit of \$60,011 for the six months ended June 30, 2022 versus the same prior year period was due to increases in operations shared support costs.

Selling and Marketing

The Company's consolidated selling and marketing expenses amounted to \$193,088 (3.0% of net sales) for the three months ended June 30, 2022 as compared to \$85,450 (1.6% of net sales) for the three months

ended June 30, 2021, an increase of \$107,638. For the three months ended June 30, 2022, the change was primarily due to added personnel and increased travel expenses.

The Company's consolidated selling and marketing expenses amounted to \$374,543 (3.3% of net sales) for the six months ended June 30, 2022 as compared to \$203,526 (1.8% of net sales) for the six months ended June 30, 2021, an increase of \$171,017. For the six months ended June 30, 2022, as compared to the prior period, the increase is primarily due to added personnel and increased travel expenses.

General and Administrative

The Company's consolidated general and administrative expenses were \$903,646 (13.8% of net sales) for the three months ended June 30, 2022 as compared to \$722,969 (13.4% of net sales) for the three months ended June 30, 2021, an increase of \$180,677. The increase in general and administrative expenses for the three months ended June 30, 2022 when compared to the three months ended June 30, 2021 is due primarily to increased rent expense (see Note 4), computer expenses, and professional services.

The Company's general and administrative expenses were \$1,819,522 (16.2% of net sales) for the six months ended June 30, 2022 as compared to \$1,376,182 (12.3% of net sales) for the six months ended June 30, 2021, an increase of \$443,340. The increase in general and administrative expenses for the six months ended June 30, 2022, when compared to the same period in 2021, is due primarily to payments of rent (\$185,611 increase) which began on June 30, 2021 with the sale-leaseback (see Note 4), increased travel expenses, computer expenses, and professional services.

Other Income (Expense)

Total other income (expense), net, decreased to (\$24,204) for the three months ended June 30, 2022, as compared to \$3,383,292 for the three months ended June 30, 2021, a change of (\$3,407,496). The decrease is due to the effect in 2021 of a \$3,424,215 gain on the sale of fixed assets related to the sale-leaseback of the Company's main manufacturing facility in 2021 (see Note 4).

Total other income (expense), net, decreased to (\$43,170) as compared to \$3,339,784 for the six months ended June 30, 2021, a change of (\$3,382,954). The primary reason for the change is the same as for the aforementioned three month period comparison. Additionally, interest expense decreased by \$23,012 for the six months ended June 30, 2022 as compared to the same period in the prior year.

Income Tax Provision

The tax provisions for the six months ended June 30, 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 and the six months ended June 30, 2022 and 2021 of 0% is due to deferred tax assets being nearly fully reserved for with a valuation allowance.

Earnings Per Share

Consolidated basic earnings per share for the three months ended June 30, 2022 was (\$0.07) per share, compared to earnings per share of \$0.99 for the same period in 2021, a decrease of \$1.06 per share. The decrease in earnings per share for the three months ended June 30, 2022 compared to the same period in 2021, is primarily due to the gain realized on the sale-leaseback transaction in 2021, partially offset by an approximate \$200,000 decrease in net loss for the period, after subtracting the 2021 gain on the sale-leaseback transaction. Consolidated earnings per share, diluted, decreased from \$0.88 per share for the three months ended June 20, 2021 to (\$0.06) per share for the three months ended June 30, 2022.

Consolidated basic earnings per share for the six months ended June, 2022 was (\$0.30) per share,

compared to earnings per share of \$1.03 for the same period in 2021, a decrease of \$1.33 per share. The six month change was also primarily the effect of 2021's sale-leaseback transaction. That effect was partially offset by an approximate \$630,000 increase in net loss for the period, after adjusting 2021 for the gain on the sale-leaseback transaction. The increased net loss was attributable to a first quarter decrease in sales and gross profit combined with increased operating expenses.

Liquidity and Capital Resources

Working capital was \$2,758,563 as of June 30, 2022, as compared to \$3,145,670 at December 31, 2021, a decrease of \$387,107. The decrease in working capital is due primarily to increased bank debt and accounts payable, partially offset by increased accounts receivable and decreased contract liabilities.

Trade accounts receivable, net of allowance for doubtful accounts, were \$3,164,957 and \$2,467,530 at June 30, 2022 and December 31, 2021, respectively, an increase of \$697,427. The increase is due largely to greater sales in the second quarter of 2022 compared to the fourth quarter of 2021.

Inventories decreased by \$144,867 to \$2,857,257 at June 30, 2022 from December 31, 2021.

The accounts payable increase of \$361,739 from December 31, 2021 to June 30, 2022 was primarily due to timing.

Capital equipment expenditures were \$84,911 for the six months ended June 30, 2022. The spending was primarily for electronic measuring equipment such as scales and a vision sensor, and other manufacturing peripherals.

At June 30, 2022, the Company's total debt was \$1,393,015 as compared to \$379,000 at December 31, 2021, an increase of \$1,014,015. The increase is due to the utilization of the revolving line of credit to fund operations.

No dividends were declared or paid in the six months ended June 30, 2022.

The Company believes that cash flows from its operations, together with its existing working capital, booked orders, expense management, and availability of funds through its credit facility, will be sufficient to fund operations at current levels 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 and, the failure to do so, could have a material adverse effect on our results of operations, financial condition and business operations.

Summary of Changes in Cash Position

As of June 30, 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 six months ended June 30, 2022, net cash used by operating activities was \$956,192. Net cash used in investing activities for the six months ended June 30, 2022 was \$66,911. Net cash provided by financing activities for the six months ended June 30, 2022 was \$1,014,015. The net cash flows for the six months ended June 30, 2022 are discussed in further detail below.

Operating Cash Flows

For the six months ended June 30, 2022, net cash used by operating activities was \$956,192. 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 accounts payable, and by decreased inventories.

Investing Cash Flows

For the six months ended June 30, 2022, net cash used in investing activities was \$66,911, comprised of \$84,911 in capital expenditures partially offset by an \$18,000 gain on the sales of fixed assets.

Financing Cash Flows

For the six months ended June, 2022, net cash provided by financing activities was \$1,014,015, due to the utilization of the revolving line of credit.