MICRON SOLUTIONS, INC.

State of Incorporation:
Delaware

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25 Sawyer Passway

Fitchburg, MA 01420

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

SIC Code: 3845

Quarterly Report

For the quarterly period ending March 31, 2023 (the "**Reporting Period**")

The number of shares outstanding of our Common Stock is 3,174,131 as of March 31, 2023.

The number of shares outstanding of our Common Stock was 3,174,131 as of December 31, 2022.

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", or "Micron") 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 implement cost reduction measures and raise additional capital to fund operations and continue as a going concern, 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 and provisions in the debt agreements which 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 risks, 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 chain disruptions. Further escalation of the Ukraine-Russian conflict and geopolitical tensions related to it 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.

The Company has and continues to experience the negative effects of supply chain disruptions, which include increased lead times for material and rising raw material prices. Efforts to offset these increased costs are ongoing and include price increases to our customers. The duration of this pressurized environment is unpredictable, as well as its effects on the Company's profitability.

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 are included in the Company's most recent Annual Report for the fiscal year ended December 31, 2022, which is available for investors at otcmarkets.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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Item 2 Shares outstanding

As of March 31, 2023					
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	3,174,131	1,709,704	709	172
As of December 31, 2022					
	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	3,174,131	1,709,704	653	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

Item 3 Interim financial statements.

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 Months Ended March 31, 2023. 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").

Financial Statement	Micron Solutions, Inc., and Subsidiary Consolidated Financial Statements for the three months ended March 31, 2023 and 2022 Page Reference
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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 March 31, 2023, which begins on page 19, and is incorporated herein by reference.

Item 5 Legal proceedings.

We are not aware of any pending or threated 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.

On April 30, 2023, the Company and its subsidiary entered into a Second Amendment to the Loan and Security Agreement with Berkshire Bank that provided for a modification of certain terms and conditions of the Berkshire Bank credit facility, including among other things, (i) that upon the Company receiving subordinated loans from certain investors in an amount not less than $250,000, then the Company's revolving loan availability block of $500,000 will be reduced to $250,000 for a period of 90 days ending July 31, 2023, at which time it will automatically revert back to $500,000 and (ii) a modification of the interest rate under the Revolving Loan by increasing the term SOFR margin from 2.5% to 3%. On May 3, 2023, Micron Solutions received $250,000 in capital through the sale of subordinated secured promissory notes (the "Subordinated Notes") to certain "accredited investors", that included entities controlled by certain board members (Jason Chambers, Rodd Friedman, and Andrei Soran). The sale of the Subordinated Notes were issued under an exemption from the registration requirements under the Securities Act of 1933 pursuant to Section 4(a)(2) and Regulation 506(b) promulgated thereunder. The Subordinated Notes are fully subordinated to the obligations of Berkshire Bank under the Credit Facility pursuant to a subordination agreement entered into by the Company, Micron Products, and the Subordinated Noteholders for the benefit of Berkshire Bank (the "Subordinated Agreement"), are senior to all other indebtedness of the Company other than the Berkshire Bank obligations under the Credit Facility, and are secured by the assets of the Company and its subsidiaries. The Subordinated Notes have a maturity date of May 3, 2025, bear interest at 10% per annum on the outstanding principal, with interest only payments on the outstanding principal payable quarterly in arrears beginning June 30, 2023, provided there is no event of default occurring under the Berkshire Bank Credit Facility and the Company has satisfied certain EBITDA thresholds as provided for in the Subordination Agreement. The proceeds from the Subordinated Notes was used to pay down the Revolving Credit Facility. In addition to the issuance of the Subordinated Notes, the Company issued to the Subordinated Noteholders in the aggregate warrants to purchase up to 50,000 shares of Common Stock at an exercise price of $1.8491 per share (the “Warrants”). The Warrants expire on April 30, 2028.

Item 8 Exhibits.

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

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

Item 9 Certifications.

I, William J. Laursen, certify that:

1. I have reviewed this quarterly disclosure statement of Micron Solutions, Inc. (the “Company”) for the reporting period ended March 31, 2023;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 12, 2023

William J. Laursen
President & Chief Executive Officer

I, Glen R. Bunnell, certify that:

1. I have reviewed this quarterly disclosure statement of Micron Solutions, Inc. (the “Company”) for the reporting period ended March 31, 2023;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 12, 2023

Glen R. Bunnell

Treasurer & Chief Financial Officer

Item 3. Interim Financial Statements

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

	March 31, 2023	December 31, 2022
Current assets:		
Cash and cash equivalents	6,897	5,846
Restricted cash	72,323	72,323
Trade accounts receivable, net of allowance for doubtful accounts of $43,169 at March 31, 2023 and at December 31, 2022	3,175,998	3,437,963
Inventories	3,384,580	3,200,103
Prepaid expenses and other current assets	332,787	437,913
Total current assets	6,972,585	7,154,148
Property, plant and equipment, net	1,621,148	1,796,608
Intangible assets, net	29,776	31,091
Right of use Operating lease asset, net of amortization	2,875,532	2,959,951
Other assets	4,660	4,160
Total assets	11,503,701	11,945,958
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving line of credit	2,124,231	2,082,330
Equipment line of credit, current portion	75,800	75,800
Accounts payable	1,286,930	1,073,927
Accrued expenses and other current liabilities	647,936	604,603
Contract liabilities	190,852	72,192
Operating lease liability, current portion	302,884	313,619
Total current liabilities	4,628,633	4,222,471
Long-term liabilities:		
Equipment line of credit, net	246,350	265,300
Operating lease liability, non-current portion	2,633,897	2,700,546
Total long-term liabilities	2,880,247	2,965,846
Total liabilities	7,508,880	7,188,317
Commitments and Contingencies		
Shareholders' equity:		
Preferred stock, $ par value; 0 shares authorized, issued	—	—
Common stock, $0.01 par value; 10,000,000 shares authorized; 3,926,491 shares issued, 3,174,131 shares outstanding at March 31, 2023 and December 31, 2022, respectively	39,265	39,265
Additional paid-in-capital	12,003,022	11,979,633
Treasury stock at cost, 840,749 shares at March 31, 2023 and December 31, 2022, respectively	(2,053,325)	(2,053,325)
Accumulated deficit	(5,994,140)	(5,207,931)
Total shareholders' equity	3,994,821	4,757,641
Total liabilities and shareholders' equity	11,503,701	11,945,958

See accompanying notes to condensed consolidated financial statements.

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

		Three Months Ended March 31,		
		2023		2022
Net sales	$	5,177,912	$	4,683,268
Cost of sales		4,854,226		4,285,956
Gross profit		323,686		397,312
Selling and marketing		166,500		181,457
General and administrative		898,653		915,877
Total operating expenses		1,065,153		1,097,334
Income (loss) from operations		(741,467)		(700,022)
Other income (expense):				
Interest expense		(44,743)		(26,965)
Other income, net		—		8,000
Total other income (expense), net		(44,743)		(18,965)
Net income (loss) before income tax provision		(786,210)		(718,987)
Income tax provision		—		1,368
Net income (loss)	$	(786,210)	$	(720,355)
Earnings (loss) per share - basic		(0.25)		(0.23)
Earnings (loss) per share - diluted	$	(0.25)	$	(0.22)
Weighted average common shares outstanding - basic		3,171,342		3,130,242
Weighted average common shares outstanding - diluted		3,171,342		3,306,870

See accompanying notes to condensed consolidated financial statements.

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

	Common Shares			Additional Paid-in	Treasury Stock				Accumulated		
	Number		Amount	Capital	Shares		Amount		deficit		Total
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
December 31, 2022	3,926,491	$	39,265	11,979,633	752,360	$	(2,053,326)	$	(5,207,931)	$	4,757,642
Share based compensation				23,389							23,389
Issuance of Common Stock from Treasury											0
Net income...									(786,209)		(786,209)
March 31, 2023	3,926,491	$	39,265	12,003,022	752,360	$	(2,053,326)	$	(5,994,140)	$	3,994,822

See accompanying notes to condensed consolidated financial statements.

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

		Three Months Ended March 31, 2023		2022
Cash flows from operating activities:				
Net income (loss)	$	(786,210)	$	(720,355)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Gain on sale of property, plant and equipment		—		(8,000)
Depreciation and amortization		216,158		225,206
Non-cash interest expense		—		18,904
Share-based compensation expense		49,087		180,716
Changes in operating assets and liabilities:				
Accounts receivable		261,965		(343,612)
Inventories		(184,477)		(365,723)
Prepaid expenses and other assets		85,963		(31,405)
Accounts payable		213,003		(61,608)
Accrued expenses and other current liabilities		43,333		(4,619)
Contract liabilities		118,660		(9,683)
Net cash provided by (used in) operating activities		17,482		(1,120,179)
Cash flows from investing activities:				
Purchases of property, plant and equipment		(39,382)		(25,489)
Proceeds on sales of property, plant and equipment		—		8,000
Net cash provided by (used in) investing activities		(39,382)		(17,489)
Cash flows from financing activities:				
Proceeds (payments) on revolving line of credit, net		41,901		1,123,922
Proceeds from new revolving line of credit		—		—
Proceeds from term notes		—		—
Payments on term notes payable		(18,950)		—
Net cash provided by (used in) financing activities		22,951		1,123,922
Net change in cash and cash equivalents		1,051		(13,746)
Cash, cash equivalents and restricted cash, beginning of period		78,169		13,746
Cash, cash equivalents and restricted cash, end of period	$	79,220	$	0

		Three Months Ended March 31, 2023		2022
Supplemental Cash Flow Information				
Cash paid for interest	$	44,743	$	6,044
Non-cash activities:				
Issuance of treasury stock for directors' fees	$		$	148,630

See accompanying notes to condensed consolidated financial statements.

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, 2022 filed with the OTC Markets Group, OTCQB on March 30, 2023.

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, 2022 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

These financial statements have been prepared on a going concern basis. As such, they anticipate the realization of assets and the satisfaction of liabilities in the normal course of business. 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 recurring losses from operations and anticipated reductions in revenue primarily as a result of factors impacting customer demand in 2023. These factors include, but are not limited to, work stoppages in the UK National Health System that is impacting Sensor demand, delayed purchase orders from customer product re-designs, and a loss of a customer due to their consolidation of suppliers. As of March 31, 2023, the Company has $6,897 in cash, due to the sweep arrangement on the Revolver, and approximately $440,000 of borrowing capacity on the Revolver.

On April 30, 2023, the Company and its subsidiary, Micron Products, entered into a Second Amendment to the Loan and Security Agreement with Berkshire Bank that provided for a modification of certain terms and conditions of the Berkshire Bank credit facility, including among other things, (i) that upon the Company receiving subordinated loans from certain investors in an amount not less than $250,000, then the Company's revolving loan availability block of $500,000 will be reduced to $250,000 for a period of 90 days ending July 31, 2023, at which time it will automatically revert back to $500,000 and (ii) a modification of the interest rate under the Revolving Loan by increasing the term SOFR margin from 2.5% to 3%. On May 3, 2023, Micron Solutions received $250,000 in capital through the sale of subordinated secured promissory notes (the "Subordinated Notes") to certain "accredited investors", that included entities controlled by certain board members (Jason Chambers, Rodd Friedman, and Andrei Soran). The sale of the Subordinated Notes were issued under an exemption from the registration requirements under the Securities Act of 1933 pursuant to Section 4(a)(2) and

Regulation 506(b) promulgated thereunder. The Subordinated Notes are fully subordinated to the obligations of Berkshire Bank under the Credit Facility pursuant to a subordination agreement entered into by the Company, Micron Products, and the Subordinated Noteholders for the benefit of Berkshire Bank (the "Subordinated Agreement"), are senior to all other indebtedness of the Company other than the Berkshire Bank obligations under the Credit Facility, and are secured by the assets of the Company and its subsidiaries. The Subordinated Notes have a maturity date of May 3, 2025, bear interest at 10% per annum on the outstanding principal balance, with interest only payments on the outstanding principal balance payable quarterly in arrears beginning June 30, 2023, provided there is no event of default occurring under the Berkshire Bank Credit Facility and the Company has satisfied certain EBITDA thresholds as provided for in the Subordination Agreement. The proceeds from the Subordinated Notes was used to pay down the Revolving Credit Facility. In addition to the issuance of the Subordinated Notes, the Company issued to the Subordinated Noteholders in the aggregate warrants to purchase up to 50,000 shares of Common Stock at an exercise price of $1.8491 per share (the "Warrants"). The Warrants expire on April 30, 2028.

On March 30, 2022, the Company entered into the First Amendment to the Loan and Security Agreement in which violations of the financial covenants for 2021 were waived and certain covenants for the first two quarters of 2022 were eliminated. The terms of the First Amendment also included a freeze on 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. The Company was in compliance with existing covenants as of December 31, 2022. As of March 31, 2023, the Company was not in compliance with its debt service coverage and minimum capital base financial covenants. The Company has requested, and anticipates the granting of, waivers for this non-compliance from Berkshire Bank and is in discussions regarding new financial covenants with Berkshire Bank for the remainder of 2023. The Company continues to borrow under the existing Revolver facility.

At March 31, 2023, the Company's total debt, net of discounts, was $2,446,381 as compared to $2,379,320 at December 31, 2022, an increase of $67,061. The total outstanding debt at March 31, 2023 is comprised of the Revolver balance of $2,124,231 and the principal balance of $322,150 on financed capital equipment under the Credit Agreement. The increase in total debt is primarily due to the utilization of the Revolver in connection with operations.

Management believes, based on its current financial projections, that the Company may not have sufficient funds to finance operations and pay for its obligations for a period of one year from the date these financial statements were available to be issued. Accordingly, there is substantial doubt about the Company's ability to continue as a going concern. The Company plans to address the existence of substantial doubt through implementing cost reduction measures, and, if necessary, pursuing additional funding through debt and/or equity financing, in addition to the Subordinated Notes described above. However, there can be no assurance that the Company will be successful in raising additional debt and/or equity on acceptable terms or effectively reducing expenses. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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:

		March, 31 2023		December, 31 2022
Raw materials	$	1,273,483	$	1,406,583
Work-in-process		1,739,252		1,380,809
Finished goods		371,845		412,711
Total	$	3,384,580	$	3,200,103

3. Property, Plant and Equipment, net

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

		Asset Lives (in years)			March 31, 2023		December 31, 2022
Machinery and equipment	3	to	15	$	17,744,403	$	17,739,049
Building and improvements	5	to	25		1,555,070		1,555,070
Vehicles	3	to	5		97,196		97,196
Furniture, fixtures, computers and software	3	to	5		1,407,153		1,407,153
Construction in progress					58,041		24,013
Total property, plant and equipment					20,861,863		20,822,481
Less: accumulated depreciation					(19,240,715)		(19,025,873)
Property, plant and equipment, net				$	1,621,148	$	1,796,608

For the three months ended March 31, 2023 and 2022, the Company recorded depreciation expense of $214,843 and $223,726, respectively.

4. Sale-leaseback

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

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

5. Debt

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

		March 31, 2023		December 31, 2022
Revolving line of credit	$	2,124,231	$	2,082,330
Equipment line of credit		322,150		341,100
Less current portion, net		(2,200,031)		(2,158,130)
Bank Debt, non-current		246,350		265,300
Total debt, net	$	2,446,381	$	2,423,430

Bank Debt

On June 30, 2021, the Company entered into a three-year $7,000,000 Loan and Security Agreement (the “Agreement”) with Berkshire Bank, 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.

As of March 31, 2023, the Company was not in compliance with its debt service coverage and minimum capital base financial covenants. The Company has requested, and anticipates the granting of, waivers for this non-compliance from Berkshire Bank and is in discussions regarding new financial covenants with Berkshire Bank for the remainder of 2023. The Company continues to borrow under the existing Revolver facility.

Revolver

The Revolver allows for interest only payments during the term of the facility with the full principal outstanding balance to be paid upon maturity on June 30, 2024. Under the First Amendment to the Loan and Security Agreement, interest on all borrowings from the Revolver will be calculated based upon the Term SOFR Rate (Secured Overnight Financing Rate) plus a spread adjustment plus 2.50%. The Term SOFR Rate + spread adjustment carries an interest rate floor of 0.75%. The interest rate on the Revolver was 7.28% at March 31, 2023.

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 $440,500 as of March 31, 2023.

Equipment Line of Credit

Through March 31, 2023, 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%. 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 (8.50% as of March 31, 2023).

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.

6. Income Taxes

As of March 31, 2023, the Company continues to maintain a valuation allowance against its deferred tax assets.

As of March 31, 2023, the Company has federal and state net operating loss carryforwards totaling $12,761,000 and $12,199,000, respectively, which begin to expire in 2031. The Company also had federal and state tax credit carryovers of $303,000 and $158,000, respectively. The federal and state 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 March 31, 2023.

Legal matters

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

Operating lease agreements

In addition to the building lease recorded on the balance sheet as the right of use asset and corresponding liability (see Note 4), the Company holds a one-year lease for a parking area, which ends in May 2023.

Lease expense under all operating leases for the three months ended March 31, 2023 and 2022 was $110,836 and $103,518, respectively.

Future minimum lease payments for the years ending December 31 are as follows:

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

8. Shareholders' Equity

Stock options and share-based incentive plan

The following table sets forth the stock option transactions for the three months ended March 31, 2023:

	Number of options		Weighted Average Exercise Price		Aggregate Intrinsic Value
Outstanding at December 31, 2022	411,000	$	2.96	$	37,309
Granted	—		—		
Exercised	—				
Forfeited	—		—		
Expired	—				
Outstanding at March 31, 2023	411,000	$	2.96	$	37,309
Exercisable at March 31, 2023	216,000	$	3.17	$	37,309
Exercisable at December 31, 2022	216,000	$	3.17	$	37,309

For the three months ended March 31, 2023, and 2022, share based compensation expense related to stock options amounted to $23,389 and $33,997, respectively. Share based compensation is included in general and administrative expenses.

For the three months ended March 31,2023, no stock options were granted, none were exercised, forfeited, or expired. For the three months ended March 31, 2022, 159,000 stock options were granted, none were exercised, and 2,000 were forfeited due to an employee termination.

Unrecognized stock-based compensation expense related to stock options as of March 31, 2023 and 2022 was $502,209 and $523,959, respectively.

Common Stock

There were no shares of the Company's common stock issued from Treasury during the three months ended March 31, 2023.

9. Subsequent Event

On April 30, 2023, the Company and its subsidiary, Micron Products, entered into a Second Amendment to the Loan and Security Agreement with Berkshire Bank that provided for a modification of certain terms and conditions of the Berkshire Bank credit facility, including among other things, (i) that upon the Company receiving subordinated loans from certain investors in an amount not less than $250,000, then the Company's revolving loan availability block of $500,000 will be reduced to $250,000 for a period of 90 days ending July 31, 2023, at which time it will automatically revert back to $500,000 and (ii) a modification of the interest rate under the Revolving Loan by increasing the term SOFR margin from 2.5% to 3%. On May 3, 2023, Micron Solutions received $250,000 in capital through the sale of subordinated secured promissory notes (the "Subordinated Notes") to certain "accredited investors", that included entities controlled by certain board members (Jason Chambers, Rodd Friedman, and Andrei Soran) and issued to the Subordinated Noteholders in the aggregate warrants to purchase up to 50,000 shares of Common Stock at an exercise price of $1.8491 per share (the "Warrants"), which Warrants are immediately exercisable and expire on April 30, 2028. For additional information on the Second Amendment, Subordinated Notes and Warrants see Note 1 to the Notes to Consolidated Financial Statements. The proceeds from the Subordinated Notes was used to pay down the Revolving Credit Facility.

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

Forward-Looking Statements

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 Quarterly 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 implement cost reduction measures and raise additional capital to fund operations and continue as a going concern, *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 risk, 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, 2022, under footnote 2 "Accounting Policies". There have been no material changes to these policies since December 31, 2022 for which an Annual Report was filed with the OTC Markets on March 30, 2023 and is available at otcmarkets.com. Management believes there have been no significant changes for the three months ended March 31, 2023 to the items that we disclosed as critical accounting estimates in our Annual Report for the fiscal year ended December 31, 2022.

Liquidity and Management's Plan

The financial statements contained in this Quarterly Report have been prepared on a going concern basis. As such, they anticipate the realization of assets and the satisfaction of liabilities in the normal course of business. 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 recurring losses from operations and anticipated reductions in revenue primarily as a result of factors impacting customer demand in 2023. These factors include, but are not limited to, work stoppages in the UK National Health System that is impacting Sensor demand, delayed purchase orders from customer product re-designs, and a loss of a customer due to their consolidation of suppliers. As of March 31, 2023, the Company has $6,897 in cash, due to the sweep arrangement on the Revolver, and approximately $440,000 of borrowing capacity on the Revolver.

On April 30, 2023, the Company entered into a Second Amendment to the Loan and Security Agreement with Berkshire Bank that provided for a modification of certain terms and conditions of the Berkshire Bank credit facility, including among other things, (i) that upon the Company receiving subordinated loans from certain investors in an amount not less than $250,000, then the Company's revolving loan availability block of $500,000 will be reduced to $250,000 for a period of 90 days ending July 31, 2023, at which time it will automatically revert back to $500,000 and (ii) a modification of the interest rate under the Revolving Loan by increasing the term SOFR margin from 2.5% to 3%.

On May 3, 2023, Micron Solutions received $250,000 in capital through the sale of subordinated secured promissory notes (the "Subordinated Notes") to certain "accredited investors", that included entities controlled by certain board members (Jason Chambers, Rodd Friedman, and Andrei Soran). The Subordinated Notes are fully subordinated to the obligations of Berkshire Bank under the Credit Facility pursuant to a subordination agreement entered into by the Company, Micron Products, and the Subordinated Noteholders for the benefit of Berkshire Bank (the "Subordinated Agreement"), are senior to all other indebtedness of the Company other than the Berkshire Bank obligations under the Credit Facility, and are secured by the assets of the Company and its subsidiaries. The Subordinated Notes have a maturity date of May 3, 2025, bear interest at 10% per annum on the outstanding principal balance, with interest only payments on the outstanding principal balance payable quarterly in arrears beginning June 30, 2023, provided there is no event of default occurring under the Berkshire Bank Credit Facility and the Company has satisfied certain EBITDA thresholds as provided for in the Subordination Agreement.

On March 30, 2022, the Company entered into the First Amendment to the Loan and Security Agreement in which violations of the financial covenants for 2021 were waived and certain covenants for the first two quarters of 2022 were eliminated. The terms of the First Amendment also included a freeze on 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.

The Company was in compliance with existing covenants as of December 31, 2022. As of March 31, 2023, the Company was not in compliance with its debt service coverage and minimum capital base financial covenants. The Company has requested, and anticipates the granting of, waivers of this noncompliance from Berkshire Bank and is in discussions regarding new financial covenants with Berkshire Bank for 2023.

At March 31, 2023, the Company's total debt, net of discounts, was $2,446,381 as compared to $2,379,320 at December 31, 2022, an increase of $67,061. The total outstanding debt at March 31, 2023 is comprised of the Revolver balance of $2,124,231 and the principal balance of $322,150 on financed capital equipment under the Credit Agreement. The increase in total debt is primarily due to the utilization of the Revolver in connection with operations.

Management believes, based on its current financial projections, that the Company may not have sufficient funds to finance operations and pay for its obligations for a period of one year from the date these financial statements were available to be issued. Accordingly, there is substantial doubt about the Company's ability to continue as a going concern. The Company plans to address the existence of substantial doubt through implementing cost reduction measures, and, if necessary, pursuing additional funding through debt and/or equity financing, in addition to the Subordinated Notes described above. However, there can be no assurance that the Company will be successful in raising additional debt and/or equity on acceptable terms or effectively reducing expenses. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, 2023		Three Months Ended March 31, 2022	
Net sales	100.0	%	100.0	%
Cost of sales	93.7		91.5	
Gross profit	6.3		8.5	
Selling and marketing	3.2		3.9	
General and administrative	17.4		19.6	
Other income	0.9		0.4	
Income before income tax provision (benefit)	(15.2)		(15.4)	
Income tax provision (benefit)	—		—	
Net income	(15.2)	%	(15.4)	%

Net Sales and Gross Profit

Net sales		2023		2022		$ Change		% Change
Three months ended March 31	$	5,177,912	$	4,683,268	$	494,644		10.6%
Gross profit		2023		2022		$ Change		% Change
Three months ended March 31	$	323,686	$	397,312	$	(73,626)		(18.5)%
As a percentage of sales		6.3%		8.5%				

The increase in consolidated net sales of $494,644 for the three months ended March 31, 2023 versus the same prior year period was primarily due to increased volume for machining and sensor product sales and partially offset by decreases in molding sales.

The decrease in consolidated gross profit of $73,626 for the three months ended March 31, 2023 versus the same prior year period, was due to a decline in molding revenue and an unfavorable change in product mix in the machining business.

Selling and Marketing

The Company's consolidated selling and marketing expenses amounted to $166,500 (3.2% of net sales) for the three months ended March 31,2023 as compared to $181,455 (3.9% of net sales) for the three months ended March 31, 2022, a decrease of $14,955. For the three months ended March 31, 2023 as compared to the same period in the prior year, the decrease was primarily due to a reduction in commissions paid to an outside sales representative.

General and Administrative

The Company's consolidated general and administrative expenses were $898,653 (17.4% of net sales) for the three months ended March 31, 2023, as compared to $915,877(19.6% of net sales) for the three months ended March 31, 2022, a decrease of $17,224. The decrease in general and administrative expenses for the three months ended March 31, 2023, when compared to the three months ended March 31, 2022, is due primarily to a decrease in recruiting expenses.

Other Income/Expense, net

Total other income (expense), net, decreased to ($44,743) for the three months ended March 31, 2023, as compared to ($18,965) for the three months ended March 31, 2022, a change of ($25,778). The decrease is due primarily to an increased costs of interest.

Income Tax Provision

The tax provisions for the three months ended March 31, 2023 and 2022 attributable to the U.S. federal and state income taxes are $0 and $1,368, respectively. The Company’s combined federal and state effective income tax rate for the three months ended March 31, 2023 and 2022 of 0% is due to deferred tax assets being nearly fully reserved for with a valuation allowance.

Earnings (Loss) Per Share

Consolidated basic loss per share for the three months ended March 31, 2023 was ($0.25) as compared to a loss per share of ($0.23) for the same period in 2022, a $0.02 per share decrease. The decrease in earnings per share is primarily due to decreased margins.

Liquidity and Capital Resources

Working capital was $2,343,952 as of March 31, 2023, as compared to $2,931,677 as of December 31, 2022, a decrease of $587,725. The decrease in working capital is due primarily to a decrease in accounts receivable and prepaid expenses and other current assets, partially offset by an increase in inventory, accounts payable, accrued expenses, and contract liabilities.

Trade accounts receivable, net of allowance for doubtful accounts, were $3,175,998 and $3,437,963 at March 31, 2023 and December 31, 2022, respectively, a decrease of $261,965. The decrease is mostly due to collections of outstanding receivables from sales that took place in the fourth quarter of 2022.

Inventories increased by $184,477 to $3,384,580 as of March 31, 2023 from $3,200,103 as of December 31, 2022. The greatest increase was in work in process inventory related to our machining business.

Pre-paid expenses decreased by $105,126 as compared to December 31, 2022 due to the amortization timing of the Company’s insurance policies which renewed on July 1, 2022.

Accrued expenses increased by $119,133 compared to December 31, 2022. This is also primarily driven by insurance costs, with the policy premiums payable included in this account group.

Capital equipment expenditures were $39,382 for the three months ended March 31, 2023. The spending was primarily for tooling expenditures for customer projects.

As of March 31, 2023, the Company’s total debt was $2,446,381 as compared to $2,423,430 at December 31, 2022, an increase of $22,951. The increase is due to the additional utilization of the revolving line of credit to fund operations.

No dividends were declared or paid during the three months ended March 31, 2023

Summary of Changes in Cash Position

As of March 31, 2023, the Company had $6,897 of free cash on hand. Cash is swept daily against the Revolver in accordance with the Company’s credit agreement. For the three months ended March 31, 2023, net cash provided by operating activities was $17,482. Net cash used in investing activities for the three months ended March 31, 2023 was $39,382. Net cash provided by financing activities for the three months ended March 31, 2023 was $22,951. The net cash flows for the three months ended March 31, 2023 are discussed in further detail below.

Operating Cash Flows

For the three months ended March 31, 2023, net cash provided by operating activities was $17,482.

Cash provided by operating activities was primarily the result of the net loss offset by non-cash addbacks for depreciation, amortization and share based compensation, additionally effected by changes in working capital.

Investing Cash Flows

For the three months ended March 31, 2023, net cash used in investing activities was $39,382, which was primarily comprised of capital expenditures

Financing Cash Flows

For the three months ended March 31, 2023, net cash provided by financing activities was $22,951 which was comprised of $41,901 in net proceeds from the revolving line of credit, which was offset by $18,950 paid towards the Company’s equipment line of credit.