MICRON SOLUTIONS INC /DE/
Form 10-Q
November 13, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______ to ______

001-9731

(Commission file No.)

Micron Solutions, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	72 0925679
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

25 Sawyer Passway

Fitchburg, Massachusetts 01420

(Address of principal executive offices and zip code)

(978) 345-5000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

As of November 9, 2018 there were 2,855,921 shares of the Company’s common stock outstanding.

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Micron Solutions, Inc. and Subsidiary

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PART I - CONDENSED FINANCIAL STATEMENTS

Item 1. Condensed Consolidated Financial Statements (unaudited)

Micron Solutions, Inc. and Subsidiary

Condensed Consolidated Balance Sheets

(unaudited)

	September 30, 2018	December 31, 2017

Assets		
Current assets:		
Cash and cash equivalents	$ 2,840	$ 606,988
Restricted cash	—	350,000
Trade accounts receivable, net of allowance for doubtful accounts of $40,000 at September 30, 2018 and December 31, 2017, respectively	2,929,717	2,595,248
Inventories	3,820,785	3,413,199
Prepaid expenses and other current assets	531,706	460,954
Total current assets	7,285,048	7,426,389
Property, plant and equipment, net	5,232,945	5,744,039
Assets held for sale, net	688,750	688,750
Intangible assets, net	54,567	55,133
Other assets	5,135	10,289
Total assets	$ 13,266,445	$ 13,924,600
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving line of credit	$ 1,544,217	$ 1,879,047
Term notes payable, current portion	376,488	367,779
Subordinated promissory notes, current portion	—	350,000
Accounts payable	1,530,662	1,534,349
Accrued expenses and other current liabilities	598,962	320,065
Contract liabilities, current portion	613,218	426,457
Total current liabilities	4,663,547	4,877,697
Long-term liabilities:		
Term notes payable, non-current portion	3,680,997	3,978,415
Total long-term liabilities	3,680,997	3,978,415
Total liabilities	8,344,544	8,856,112
Commitments and Contingencies		
Shareholders' equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 10,000,000 shares authorized; 3,926,491 issued, 2,855,921 outstanding at September 30, 2018 and 3,926,491 issued, 2,839,274 outstanding at December 31, 2017	39,265	39,265
Additional paid-in-capital	11,577,322	11,532,207
Treasury stock at cost, 1,070,570 shares at September 30, 2018 and 1,087,217 shares at December 31, 2017	(2,921,372)	(2,966,798)
Accumulated deficit	(3,773,314)	(3,536,186)
Total shareholders' equity	4,921,901	5,068,488
Total liabilities and shareholders' equity	$ 13,266,445	$ 13,924,600

See accompanying notes to condensed consolidated financial statements.

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Micron Solutions, Inc. and Subsidiary

Condensed Consolidated Statements of Operations

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$ 5,001,660	$ 4,908,088	$ 15,441,134	$ 15,563,791
Cost of sales	4,266,636	4,215,843	13,096,930	13,836,335
Gross profit	735,024	692,245	2,344,204	1,727,456
Selling and marketing	189,031	171,304	583,607	671,997
General and administrative	509,179	614,082	1,642,306	1,783,590
Research and development	25,372	26,787	80,094	84,427
Total operating expenses	723,582	812,173	2,306,007	2,540,014
Net income (loss) from operations	11,442	(119,928)	38,197	(812,558)
Other income (expense):				
Interest expense	(101,439)	(83,835)	(294,467)	(235,165)
Other income, net	12,826	22,896	33,133	56,966
Total other expense, net	(88,613)	(60,939)	(261,334)	(178,199)
Net loss before income tax provision (benefit)	(77,171)	(180,867)	(223,137)	(990,757)
Income tax provision (benefit)	—	—	—	—
Net loss	$ (77,171)	$ (180,867)	$ (223,137)	$ (990,757)
Comprehensive loss	(77,171)	(180,867)	$ (223,137)	$ (990,757)
Earnings (loss) per share - basic and diluted	$ (0.03)	$ (0.06)	$ (0.08)	$ (0.35)
Weighted average common shares outstanding - basic and diluted	2,853,111	2,821,263	2,847,660	2,820,369

See accompanying notes to condensed consolidated financial statements.

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Micron Solutions, Inc. and Subsidiary

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$ (223,137)	$ (990,757)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on sale of property, plant and equipment	—	(21,750)
Depreciation and amortization	1,130,000	1,208,872
Non-cash interest expense	50,443	23,211
Change in allowance for doubtful accounts	—	16,000
Share-based compensation expense	90,541	84,750
Changes in operating assets and liabilities:		
Accounts receivable	(334,469)	(638,069)
Inventories	(483,847)	(154,072)
Prepaid expenses and other current assets	(98,922)	57,860
Other non-current assets	1,000	147,085
Accounts payable	(86,616)	(32,599)
Accrued expenses and other current liabilities	297,228	123,222
Contract liabilities	186,761	36,044
Other non-current liabilities	—	(156,953)
Net cash provided by (used in) operating activities	528,982	(297,156)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(456,488)	(868,716)
Proceeds from sale of property, plant and equipment	—	34,600
Cash paid for patents and trademarks	(2,661)	(29,307)
Net cash provided by (used in) investing activities	(459,149)	(863,423)
Cash flows from financing activities:		
Proceeds from (payments on) revolving line of credit, net	(334,830)	1,284,205
Proceeds from equipment line of credit	—	402,281
Payments on term notes payable	(304,762)	(381,682)
Payments of debt issuance costs	(34,389)	—
Payment on subordinated debt	(350,000)	—
Net cash provided by (used in) financing activities	(1,023,981)	1,304,804
Net change in cash and cash equivalents and restricted cash	(954,148)	144,225

Cash and cash equivalents and restricted cash, beginning of period	956,988	380,381
Cash and cash equivalents and restricted cash, end of period	$ 2,840	$ 524,606

	Nine Months Ended September 30,	
Supplemental Cash Flow Information	2018	2017
Cash paid for interest	$ 244,819	$ 202,327
Non-cash activities:		
Issuance of treasury stock for directors fees	$ 45,426	$ 58,500
Adjustment to accumulated deficit for change in accounting principle (Note 2)	$ (13,991)	$ —

See accompanying notes to condensed consolidated financial statements.

1. Basis of Presentation and Accounting Policies

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

The financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to such rules and regulations. These financial statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 26, 2018.

The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The Company's balance sheet at December 31, 2017 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.

Recent Accounting Pronouncements

In the normal course of business, management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB"), SEC, or other authoritative accounting bodies to determine the potential impact they may have on the Company's financial statements. Based upon this review, except as noted below, 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 financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)," which requires companies to recognize all leases as assets and liabilities on the consolidated balance sheet. The standard retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the current accounting literature. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in a consolidated statement of operations and a consolidated statement of cash flows is largely unchanged from previous GAAP. The amendments in this standard are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted.

As of the date of this report, the Company is the lessee of office equipment in a single operating lease and is the lessee of a parking lot. The Company is not a lessor in any arrangements. The Company is evaluating other supplier relationships to determine if such arrangements constitute a lease per this guidance. The Company does not expect any material impact on reporting or on the results of operations.

Liquidity and Management's Plan

At September 30, 2018, 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 the resulting reliance on outside financing to support operations.

Management believes that the Company can continue as a going concern for a period of twelve months from the date of issuance of these financial reports. Management's assessment includes forecasting future revenues and cash flows, taking into consideration past performance and the requirements under the credit agreement. Revenue and cash flow forecasts are dependent on the Company's ability to fill booked orders from existing customers, its ability to close new and expanded business and continued availability under the revolving line of credit. Management believes it is probable that its plans will be effectively implemented and therefore, the accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

2. Change in Accounting Principle

Revenue Recognition

The Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers, Topic 606" ("Topic 606") effective January 1, 2018 using the modified retrospective approach. Under the modified retrospective method, a cumulative effect of initially applying the new standard is recorded as an adjustment to the opening balance of retained earnings at the date of initial application. By electing to use this method, there is no restatement of the comparative periods presented (i.e., interim periods and fiscal year ending 2017). As permitted by Topic 606 transition guidance (outlined below), the Company has elected to apply the new standard only to contracts that were not completed contracts at the date of initial application, and therefore, the Company only evaluated those contracts that were in-process and not completed before January 1, 2018.

As a result of the initial application of Topic 606, the Company made an adjustment to its beginning accumulated deficit of ($13,991) to recognize the remaining deferred revenue ($18,333) and deferred costs ($32,324) recorded as of December 31, 2017 relative to certain completed tooling sales.

Beginning January 1, 2018, the Company applied Topic 606 using the five step approach outlined in the guidance: (1) Identify contracts with the customer, (2) Identify the performance obligations in the contract, (3) Determine the transaction price, (4) Allocate the transaction price to the performance obligations in the contract, and (5) Recognize revenue when (or as) the entity satisfies the performance obligations.

The Company reviewed its supply and manufacturing agreements with customers as well as the related purchase orders under these agreements. The Company also reviewed its customer relationships and purchase orders with those customers with which the Company has no formal supply agreement.

The Company determined that customer purchase orders represent contracts with a customer. For each contract, the Company considers the promise to transfer products, each of which are distinct, to be the identified performance obligations.

Shipping and handling activities for which the Company is responsible are not a separate promised service but instead are activities to fulfill the entity's promise to transfer goods. Shipping and handling fees will be recognized at the same time as the related performance obligations are satisfied.

The Company determines the transaction price as the amount of consideration it expects to receive in exchange for transferring promised goods or services to the customer. If a contract includes a variable amount, such as a rebate, then the Company estimates the transaction price using either the expected value or the most likely amount of consideration to be received, depending upon the specific facts and circumstances. The Company includes estimated variable consideration in the transaction price only to the extent it is probable that a significant reversal of revenue will not occur when the uncertainty is resolved. The Company updates its estimate of variable consideration at the end of each reporting period to reflect changes in facts and circumstances.

The Company recognizes revenue at the point in time when it transfers control of the promised goods or services to the customer, which typically occurs once the product has shipped or has been delivered to the customer. For certain customer warehousing agreements, delivery is deemed to have occurred when the customer pulls inventory out of the warehouse for use in their production. Additionally, for certain customers, delivery is deemed to have occurred when items are delivered to bill and hold locations at the Company's facility.

The Company evaluated the nature of any guarantees or warranties related to its contracts with customers. The Company determined that any such warranty is an assurance-type warranty that only covers the products' compliance with agreed-upon specifications and does not provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

Certain contracts contain prepayment terms that result in liabilities for customer deposits. Additionally, certain contracts provide for invoicing before all performance obligations have been fulfilled which results in deferred revenue. Customer deposits and advance invoicing are recorded as contract liabilities on the Company's consolidated balance sheet.

The Company generally expenses sales commission when incurred because the amortization period would have been one year or less. These costs are recorded within selling and marketing expenses.

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

Based on the Company’s assessment, the implementation of Topic 606 affects the timing of certain revenue related transactions primarily resulting from the earlier recognition of the Company's tooling revenue and costs. Under legacy GAAP, the Company accounted for tooling as multiple element arrangements whereby revenue and cost were recognized over a period of time after the tool was completed. Upon adoption of ASU 2014-09, tooling sales and costs are now recognized at the point in time upon which the tool is complete and the Company has satisfied all its performance obligations under the contract.

The table below compares the affected lines on the consolidated statements of operations as presented to legacy GAAP treatment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018 As presented	2018 Legacy GAAP	2018 As presented	2018 Legacy GAAP
Net sales	$ 5,001,660	$ 4,808,551	$ 15,441,134	$ 15,112,908
Cost of sales	4,266,636	4,114,580	13,096,930	12,851,210
Gross profit	735,024	693,971	2,344,204	2,261,698
Net income (loss) from operations	11,442	(29,611)	38,197	(44,309)
Net loss before income tax provision (benefit)	(77,171)	(118,224)	(223,137)	(305,643)
Net loss	$ (77,171)	$ (118,224)	$ (223,137)	$ (305,643)
Comprehensive loss	(77,171)	(118,224)	$ (223,137)	$ (305,643)
Earnings (loss) per share - basic and diluted	$ (0.03)	$ (0.04)	$ (0.08)	$ (0.11)
Weighted average common shares outstanding - basic and diluted	2,853,111	2,853,111	2,847,660	2,847,660

The table below compares the affected lines on the consolidated balance sheets as presented to legacy GAAP treatment.

	September 30, 2018 As presented	September 30, 2018 Legacy GAAP
Assets		
Current assets:		
Prepaid expenses and other current assets	$ 531,706	$ 618,758

Total current assets	7,285,048	7,372,100
Other assets	5,135	163,803
Total assets	$ 13,266,445	$ 13,512,165
Liabilities and Shareholders’ Equity		
Current liabilities:		
Contract liabilities, current portion	$ 613,218	$ 730,815
Total current liabilities	4,663,547	4,781,144
Long-term liabilities:		
Contract liabilities, non-current portion	—	210,629
Total long-term liabilities	3,680,997	3,891,626
Total liabilities	8,344,544	8,672,770
Shareholders’ equity:		
Accumulated deficit	(3,773,314)	(3,855,820)
Total shareholders’ equity	4,921,901	4,839,395
Total liabilities and shareholders’ equity	$ 13,266,445	$ 13,512,165

Contract liabilities would be presented as customer deposits and deferred revenue under legacy GAAP.

3. Inventories

Inventories consist of the following:

	September 30, 2018	December 31, 2017
Raw materials	$ 1,140,208	$ 1,100,187
Work-in-process	1,075,473	822,244
Finished goods	1,605,104	1,490,768
Total	$ 3,820,785	$ 3,413,199

Silver included in raw materials, work-in-process and finished goods inventory had an estimated cost of $478,018 and $536,963 as of September 30, 2018 and December 31, 2017, respectively.

4. Property, Plant and Equipment, net

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

	Asset Lives (in years)	September 30, 2018	December 31, 2017
Machinery and equipment	3 to 15	$ 17,545,122	$ 17,498,586
Building and improvements	5 to 25	3,991,951	3,986,715
Vehicles	3 to 5	104,714	90,713
Furniture, fixtures, computers and software	3 to 5	1,424,043	1,542,027
Construction in progress		375,328	17,412
Total property, plant and equipment		23,441,158	