Cimino Richard F
Form 4
November 05, 2009

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Cimino Richard F

(Last) (First) (Middle)

COVANCE INC., 210 CARNEGIE CENTER

(Street)

PRINCETON, NJ 08540-6233

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
COVANCE INC [CVD]

3. Date of Earliest Transaction (Month/Day/Year)
11/03/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Corporate Sr. Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/03/2009		M		8,794	A	$ 29.69	52,242	D	
Common Stock	11/03/2009		S		13,866	D	$ 52.6336	38,376	D	
Common Stock - 401(k) Plan	11/04/2009		I		558	D	$ 51.91	0	I	Held By Trustee

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. D S (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Option (Right to Buy)	$ 29.69	11/03/2009		M			8,794	02/25/2006	02/24/2014	Common Stock	8,794	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Cimino Richard F COVANCE INC. 210 CARNEGIE CENTER PRINCETON, NJ 08540-6233			Corporate Sr. Vice President	

Signatures

/s/ Ross A. Hyams, Power of Attorney	11/05/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. "> $1,544,217

$

1,879,047

Subordinated promissory notes

$

—

$

350,000

Total term notes payable, net of issuance costs

$

4,057,485

$

4,346,194

Less current portion, net

376,488

367,779

Term notes payable, non-current, net

3,680,997

3,978,415

Total short and long term debt, net

$

5,601,702

$

6,575,241

Bank Debt

On December 29, 2017, the Company entered into a three-year $9,500,000 asset based credit and security agreement ("credit agreement"), with a Massachusetts trust company, replacing the credit facility with the Company's previous lender. The credit agreement also provided funds with which to discharge the subordinated promissory notes.

The credit agreement includes a revolving line of credit of up to $5.0 million ("Revolver"), a machinery and equipment term loan of $2.5 million ("Equipment Loan") and a real estate term loan of $2.0 million ("Real Estate Loan" and together with the "Equipment Loan", the "Term Loans"). The credit agreement contains both financial and non-financial covenants, and is secured by substantially all the assets of the Company and a mortgage encumbering certain real property.

Revolver

The Revolver is subject to certain borrowing base limitations, primarily related to conditions of the Company's accounts receivable and inventory. The agreement provides for a daily sweep of cash balances against the balance of the Revolver. Amounts available to borrow under the Revolver are $1,509,555 at September 30, 2018.

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 December 29, 2020. Interest on all borrowings from the Revolver shall be equal to the Wall Street Journal prime rate ("Prime Rate") plus 0.5% (5.75% at September 30, 2018). In lieu of having interest charged at the Prime Rate, the Company has the option, on the last day of each month, (the "LIBOR Option") to have interest charged at a rate of interest equal to the daily one-month LIBOR plus 3.25% for the following month (5.506% at September 30, 2018). The interest rate will automatically convert back to the Prime Rate at the beginning of the next month unless the Company elects the LIBOR Option for the next month. This Revolver carries a provision for a quarterly unused facility fee equal to 0.25% per annum of the average daily undisbursed face amount of the Revolver during the three months immediately preceding the applicable due date and has no prepayment penalty.

Term Loans

The Equipment Loan requires monthly principal payments of approximately $29,762, payable on the first day of each month commencing February 1, 2018. The Equipment Loan is based upon an 84 month amortization with a balloon payment of approximately $1,458,333 due and payable in full upon maturity on December 29, 2020.

The Real Estate Loan requires monthly principal payments of approximately $8,333, payable on the first day of each month commencing February 1, 2018. The Real Estate Loan is based upon a 240 month amortization with a balloon payment of approximately $1,708,333 due and payable in full upon maturity on December 29, 2020.

Interest on the Term Loans shall be at such Wall Street Journal prime rate plus 0.75% (6.00% at September 30, 2018). In lieu of having interest charged at the Prime Rate, the Company shall have a LIBOR Option, as described above, to have interest charged at a rate of interest equal to the daily one-month LIBOR plus 3.5% for the following month (5.756% at September 30, 2018).

This credit 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. The lender has a security interest in substantially all assets and a mortgage encumbering certain real property.

Other Debt

Subordinated promissory notes

On December 29, 2017, as part of entering into the credit agreement mentioned above, the Company obtained funds to discharge the subordinated debt. On January 2, 2018, the Company discharged the notes, totaling an aggregate principal amount of $350,000, including the subordinated notes held by three related parties. The Company carried $350,000 as restricted cash at December 31, 2017 for this purpose.

7. Income Taxes

No provision for income taxes has been recorded in the three or nine months ended September 30, 2018 or 2017, respectively. Except for a benefit of an immaterial amount of federal alternative minimum tax credit, the Company continues to maintain a full valuation allowance against its deferred tax assets as of September 30, 2018 and December 31, 2017.

At September 30, 2018, the Company has federal and state net operating loss carryforwards totaling $10,275,000 and $12,317,000, respectively, which begin to expire in 2031. The Company also has federal and state tax credit carryovers of $306,000 and $268,000 respectively. The federal and state tax credits begin to expire in 2027 and 2018, respectively.

8. Commitments and Contingencies

Legal matters

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

Off-balance sheet arrangements

Lease expense under all operating leases for the three months ended September 30, 2018 and 2017 was $6,056 and $4,615, respectively. For the nine months ended September 30, 2018 and 2017, lease expense under all operating leases was $19,164 and $13,114, respectively.

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Micron Solutions, Inc. and Subsidiary

Period Ended September 30, 2018

Notes to the Condensed Consolidated Financial Statements (unaudited)

9. Shareholders' Equity

Stock options and share-based incentive plan

The following table sets forth the stock option transactions for the nine months ended September 30, 2018:

	Number of options	Weighted Average Exercise Price	Weighted average remaining contractual term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	205,500	$ 6.04	6.07	$ 28,750
Granted	90,000	3.81		
Forfeited	(2,000)	3.81		
Outstanding at September 30, 2018	293,500	$ 5.37	6.57	$ 11,040
Exercisable at September 30, 2018	152,826	$ 6.38	4.61	$ 11,040
Exercisable at December 31, 2017	114,583	$ 6.42	5.30	$ 20,551

For the three months ended September 30, 2018 and 2017, share based compensation expense related to stock options amounted to $7,729 and $5,083, respectively. For the nine months ended September 30, 2018 and 2017, share based compensation expense related to stock options amounted to $30,910 and $26,250, respectively. Share based compensation is included in general and administrative expenses.

For the three months ended September 30, 2018, no options were granted, exercised, forfeited or expired. For the three months ended September 30, 2017, no options were granted or exercised, 3,000 options were forfeited and 2,000 options expired due to employee terminations.

For the nine months ended September 30, 2018, 90,000 options were granted with a fair value of $0.50 per share, no options were exercised, 2,000 options were forfeited, due to employee terminations, and no options expired. For the nine months ended September 30, 2017, no options were granted or exercised, 7,000 options were forfeited and 2,000 options expired due to employee terminations.

Unrecognized stock based compensation expense as of September 30, 2018 and 2017 was $93,463 and $101,616, respectively.

Warrants

For the three months ended September 30, 2018 and 2017, there were no warrants exercised. As of September 30, 2018, 70,000 warrants remain unexercised, including 20,000 held by the Company's largest beneficial owner, REF Securities, LLP and with Mr. Rodd E. Friedman, a director of the Company, and 10,000 held by Mr. E. P. Marinos, a former director of the Company. The warrants expire in December 2018.

Common Stock

For the three months ended September 30, 2018, the Company issued 5,744 shares of the Company's common stock, with a fair value of $19,875 for director fees in lieu of cash payments. For the three months ended September 30, 2017, the Company issued 12,154 shares of the Company's common stock, with a fair value of $47,250 for director fees in lieu of cash payments.

For the nine months ended September 30, 2018, the Company issued 16,647 shares of the Company's common stock, with a fair value of $59,625 for director fees in lieu of cash payments. For the nine months ended September 30, 2017, the Company issued 22,635 shares of the Company's common stock, with a fair value of $58,500 for director fees in lieu of cash payments.

10. Subsequent Events

Changes in Officers and Directors

On October 29, 2018, the Company entered into a new employment agreement with its current President and Chief Executive Officer, Mr. Salvatore Emma, Jr., to become the Company's Chief Operating Officer, effective November 29, 2018. Mr. Emma's agreement provides for an annualized salary of $200,000. He is eligible for performance bonuses and shall receive options to purchase 5,000 shares of the Company's common stock. Mr. Emma will also resign as a member of the Board of Directors effective November 29, 2018.

On October 29, 2018, the Company entered into an employment agreement with Mr. William J. Laursen to become the Company's President and Chief Executive Officer, effective November 29, 2018. Mr. Laursen's agreement provides for an annualized salary of $280,000. He is eligible for performance bonuses and shall receive options to purchase 100,000 shares of the Company's common stock.

On October 29, 2018, the Company also announced the retirement of Dr. Paul F. Walter from the Company's Board of Directors and his appointment as a Director Emeritus, effective November 29, 2018. The Company also announced that Mr. Laursen was appointed to fill Dr. Walter's seat on the Board of Directors as a Class III director, effective November 29, 2018, with his term expiring at the 2019 annual meeting of stockholders.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve a number of risks and uncertainties. There are a number of factors that could cause the Company's actual results to differ materially from those forecasted or projected in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company is under no obligation and does not intend to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events. More information about factors that potentially could affect the Company's financial results is included in the Company's filings with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2017.

Overview

Micron Solutions®, Inc., a Delaware corporation ("Micron Solutions”), through its wholly-owned Massachusetts subsidiary, Micron Products®, Inc. (“Micron” and together with Micron Solutions, the "Company"), is a diversified contract manufacturing organization (“CMO”) that produces highly-engineered, innovative medical device components requiring precision machining and injection molding. The Company also manufactures components, devices and equipment for military, law enforcement, automotive and consumer product applications. The Company is engaged in the production and sale of silver/silver chloride coated and conductive resin sensors used as consumable component parts in the manufacture of integrated disposable electrophysiological sensors. These disposable medical devices are used worldwide in the monitoring of electrical signals in various medical applications. The Company's machining operations produce quick-turn, high volume patient-specific and off-the-shelf orthopedic implants and instruments. The Company’s machining operations also include laser marking, automated polishing, passivation and coating. The Company has thermoplastic injection molding capabilities as well, and provides a full array of design, engineering, production services and management. The Company competes globally, with approximately forty-five percent of its revenue derived from exports.

Critical Accounting Policies

The critical accounting policies utilized by the Company in preparation of the accompanying financial statements are set forth in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. There have been no material changes to these policies since December 31, 2017 except for the implementation of ASU No. 2014-09, “Revenue from Contracts with Customers” as described in Note 2 to these financial statements.

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.

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	85.3	85.9	84.8	88.9
Gross profit	14.7	14.1	15.2	11.1
Selling and marketing	3.8	3.5	3.8	4.3
General and administrative	10.2	12.5	10.6	11.5
Research and development	0.5	0.5	0.5	0.5
Other expense	1.8	1.2	1.7	1.1
Loss before income tax provision (benefit)	(1.6)	(3.6)	(1.4)	(6.3)
Income tax provision (benefit)	—	—	—	—
Net loss	(1.6) %	(3.6) %	(1.4) %	(6.3) %

Net Sales

Net sales	2018	2017	$ Change	% Change
Three months ended September 30,	$ 5,001,660	$ 4,908,088	$ 93,572	1.9%

The increase in consolidated net sales for the three months ended September 30, 2018 versus the prior year period was due primarily to an increase in net sales of tooling, as well as increases in net sales of thermoplastic injection molding and sensors. This was partly offset by decreased net sales of machined orthopedic implant components and instruments.

For the three months ended September 30, 2018, net sales of tooling increased 72.8% when compared to the same period in the prior year. The increase was due primarily to new tooling for customers in the automotive, medical device as well as the military and law enforcement industries. Net sales of thermoplastic injection molding for the three months ended September 30, 2018, increased 1.5% based largely to increased net sales in automotive and medical device industries, partly offset by decreased net sales in the military and law enforcement and consumer products industries. Additionally, net sales of sensors for the three months ended September 30, 2018, increased 0.3%. The increase in net sales of sensors was due to a 2.7% increase in volume over the same period last year, partly offset by lower silver surcharge revenue due in part to the timing of shipments versus the changes in the daily spot rate of the price of silver.

Partly offsetting the increase in net sales for the three months ended September 30, 2018, was a 4.2% decrease in net sales of machined components when compared to the same period last year. This decrease in machined components was due in part to delays in orders from two customers, from whom we expect to receive orders in the first quarter 2019. One customer moved their operations and delayed orders and another customer introduced a new revision. In addition, the Company began production on a new defense related project but was not running at full production for the month of September.

Net sales	2018	2017	$ Change	% Change
Nine months ended September 30,	$ 15,441,134	$ 15,563,791	$ (122,657)	(0.8)%

The decrease in consolidated net sales for the nine months ended September 30, 2018 versus the prior year period was due to a decrease in net sales of thermoplastic injection molding and tooling. This was partly offset by increased net sales of sensors and machined orthopedic implant components and instruments.

For the nine months ended September 30, 2018, net sales of thermoplastic injection molding decreased 8.1% when compared to the same prior year period. The decrease was due in part to lower demand in the military and law enforcement industry. The decrease was also due in part to the vertical integration of a single medical device customer and lower net sales in the consumer products industry. Additionally, net sales of tooling decreased 28.8% due primarily to decreased tooling for the automotive, medical device and military and law enforcement industries.

Partly offsetting the decreases above was a 5.8% increase in net sales of machined orthopedic implant components and instruments for the nine months ended September 30, 2018. The increase was due primarily to increased demand of knee implant components from two customers partly offset by one customer who vertically integrated their machining of knee implant components beginning in the third quarter of 2017. Additionally, orders of machined components for a new defense program began in September 2018.

Also partly offsetting the decreases for the nine months ended September 30, 2018, was a 4.6% increase in net sales of sensors due largely to a 5.1% increase in volume compared to the same period in 2017. Silver surcharge billed increased 0.8% based partly upon an increase in volume over the same period last year, partly offset by lower silver surcharge revenue due in part to the timing of shipments versus the changes in the daily spot rate of the price of silver.

Gross Profit

Gross profit	2018	2017	$ Change	% Change
Three months ended September 30,	$ 735,024	$ 692,245	$ 42,779	6.2%
As a percentage of sales	14.7%	14.1%		

The increase in consolidated gross profit for the three months ended September 30, 2018 versus the prior year period was due to an increase in gross profit from sensors, thermoplastic injection molding and net tooling, partly offset by lower gross profit from machined orthopedic implant components and instruments.

Increased gross profit on sensors are a result of increased volume, customer mix, improved raw materials yield and efficiency improvements in both the molding and plating operations. Despite the increase in volume, gross profit from silver surcharge decreased due to the decrease in the weighted average price of silver.

The increase in consolidated gross profit was also due in part to a 3.6% increase in gross profit from thermoplastic injection molding due in part to customer and industry mix. Net sales increased in the automotive and medical device industries, partly offset by decreased sales in the military and law enforcement and consumer products industries. Gross profit as a percentage of sales increased 0.6 percentage points.

Additionally, the increase in consolidated gross profit was due in part to a 22.5% increase in gross profit from tooling. The increase was primarily the result of higher net sales in the three months ended September 30, 2018 compared to 2017. However, gross profit as a percentage of sales decreased 10.7 percentage points over the same period last year.

The increase in consolidated gross profit explained above for the three months ended September 30, 2018 versus the prior year period, was partly offset by a 27.0% decrease in gross profit from machined orthopedic implant components and instruments. The decrease was due in part to a decrease in net sales as noted above. Additionally, the Company improved its production processes resulting in reduced rework, scrap, tooling, labor, outside expediting charges, shift premiums and overtime to meet customer delivery requirements when compared to the third quarter of 2017. Gross profit as a percentage of sales decreased 3.7 percentage points.

During the three months ended September 30, 2018, other indirect manufacturing overhead expenses increased by 12.8% when compared to the same period in the prior year. This was largely due to higher machinery and facility maintenance costs.

Gross profit	2018	2017	$ Change	% Change
Nine months ended September 30,	$ 2,344,204	$ 1,727,456	$ 616,748	35.7%
As a percentage of sales	15.2%	11.1%		

The increase in consolidated gross profit for the nine months ended September 30, 2018 versus the prior year period was due to an increase in gross profit from sensors and machined orthopedic implant components and instruments, partly offset by decreased gross profit from thermoplastic injection molding and net tooling.

Increased gross profit from sensors was due largely to increased sales as noted above, which was driven by both increased volume and customer mix as well as improved raw materials yield and efficiency improvements in both the molding and plating operations.

Additionally, the increase was due in part to a 114.5% increase in gross profit from machined orthopedic implant components and instruments. The increase was due in part to an increase in net sales as noted above. Additionally, the Company improved its production processes resulting in reduced rework, scrap, tooling, labor, outside expediting charges, shift premiums and overtime to meet customer delivery requirements when compared to the nine months ended September 30, 2017. Gross profit as a percentage of sales increased 11.8 percentage points.

Partly offsetting the increase was a decrease in consolidated gross profit from thermoplastic injection molding of 14.5% due primarily to lower net sales as described above. Additionally, the lower gross profit was partly the result of a decrease in gross profit as a percentage of sales which decreased 2.1 percentage points due in part to the impact of the vertical integration of production by a customer with a higher profit margin as well as increased scrap over the same prior year period.

Also partly offsetting the increase above was a decrease of 18.5% from net tooling due largely to lower net sales. However, gross profit as a percentage of sales increased 3.8 percentage points.

Selling and Marketing

The Company's consolidated selling and marketing expenses amounted to $189,031 (3.8% of net sales) for the three months ended September 30, 2018 as compared to $171,304 (3.5% of net sales) for the three months ended September 30, 2017, an increase of $17,727 or 10.3%.

For the three months ended September 30, 2018, the increase was due primarily to a $19,538 increase in commissions as well as an increase in professional services due to the engagement of a sales representative in the second quarter of 2018. Partly offsetting these increases were decreased expenses related to cloud based marketing services as well as lower expenses related to travel, office and computer supplies, and depreciation.

The Company's consolidated selling and marketing expenses amounted to $583,607 (3.8% of net sales) for the nine months ended September 30, 2018 as compared to $671,997 (4.3% of net sales) for the nine months ended September 30, 2017, a decrease of $88,392, or 13.2%.

For the nine months ended September 30, 2018, the decrease was primarily due to decreased compensation of $79,351 due partly to compensation adjustments implemented in the third quarter of 2017 as well as the use of independent manufacturers' sales representatives in the first half of 2018. Additionally, professional services decreased due to the impact of $18,000 of recruiting agency fees in the first quarter of 2017. The decrease was also due in part to decreased expenses related to advertising and marketing, travel, trade show attendance, office and computer supplies and depreciation expense. Partly offsetting these decreases was increased commissions of $13,874, largely in the third quarter of 2018, as mentioned above.

General and Administrative

The Company's consolidated general and administrative expenses decreased to $509,179 (10.2% of net sales) for the three months ended September 30, 2018 as compared to $614,082 (12.5% of net sales) for the three months ended September 30, 2017, a decrease of $104,903, or 17.1%.

The decrease in general and administrative expenses for the three months ended September 30, 2018 when compared to 2017 is due in part to the prior year impact of non-recurring charges of $77,606 related to outside consulting services. Compensation expenses decreased $23,089 due in part to compensation adjustments for salaried employees and executives implemented in the third quarter of 2017 as well as the outsourcing of the Company's environmental, health and safety functions. Partly offsetting these decreases was an increase in outside consulting fees of $26,387 related to outsourcing the IT function and $12,737 for outsourcing the environmental, health and safety function.

The Company's consolidated general and administrative expenses decreased to $1,642,306 (10.6% of net sales) for the nine months ended September 30, 2018 as compared to $1,783,590 (11.5% of net sales) for the nine months ended September 30, 2017, a decrease of $141,284 or 7.9%.

The decrease in general and administrative expenses for the nine months ended September 30, 2018 compared to 2017 is due largely to decreased compensation expense of $118,295 due in part to compensation adjustments for salaried employees and executives implemented in the third quarter of 2017 as well as the impact of outsourcing of the Company's IT and environmental, health and safety functions. Additionally, the decrease is due in part to the prior year impact of non-recurring charges of $77,606 related to outside consulting services. Accounting, taxes and reporting services decreased by $36,867. These decreases were partly offset by an increase of $31,913 for non-recurring professional consulting fees related to the implementation of new revenue recognition accounting guidance. Additionally, the decreases were partly offset by increases in professional and outside consulting services due to the outsourcing of both the IT and environmental, health and safety functions.

Research and Development

The Company's consolidated research and development expenses decreased to $25,372 (0.5% of net sales) for the three months ended September 30, 2018 as compared to $26,787 (0.5% of net sales) for the three months ended September 30, 2017, a decrease of $1,415, or 5.3%.

The Company's consolidated research and development expenses decreased to $80,094 (0.5% of net sales) for the nine months ended September 30, 2018 as compared to $84,427 (0.5% of net sales) for the nine months ended September 30, 2017, a decrease of $4,333, or 5.1%.

The decreases for the three and nine months ended September 30, 2018 and 2017 were due to salary reductions implemented in the third quarter of 2017.

Other Expense, net

Other expense, net increased to $88,613 for the three months ended September 30, 2018, as compared to $60,939, for the three months ended September 30, 2017, an increase of $27,674. The increase in other expense, net was due largely to an $18,094 increase in interest expense which was due in part to $13,249 of deferred financing amortization as a result of the new credit agreement entered into in December 2017, as well as $4,845 higher interest expense due in part to higher interest rates, despite a decrease in outstanding debt when compared to June 30, 2018. Partly offsetting the increase in other expense, net was an increase of $24,000 from extension fees related to the assets held for sale.

Other expense, net increased to $261,334 for the nine months ended September 30, 2018, as compared to $178,199, for the nine months ended September 30, 2017, an increase of $81,135. The increase in other expense, net was due largely to a $59,302 increase in interest expense due in part to $32,004 of deferred financing amortization as a result of the new credit agreement entered into in December 2017, as well as $27,298 due in part to higher interest rates, despite a decrease in outstanding debt when compared to December 31, 2017. Other expense, net also increased due in part to the impact of a $21,750 gain on the sale of fixed assets in the nine months ended September 30, 2017.

Income Tax Provision

The tax provisions for the three and nine months ended September 30, 2018 and 2017 attributable to the U.S. federal and state income taxes are $0. The Company’s combined federal and state effective income tax rate for the three and nine months ended September 30, 2018 and 2017 of 0% is due to the deferred tax assets being nearly fully reserved for with a valuation allowance.

Earnings (Loss) Per Share

Consolidated basic and diluted loss per share for the three months ended September 30, 2018 was $0.03 per share as compared to a loss of $0.06 per share for the same period in 2017, a decrease in loss per share of $0.03. The decrease in loss per share for the three months ended September 30, 2018, is due in part to increased net sales of $93,572, increased gross profit of $42,779 and a reduction of $88,591 in operating expenses.

Consolidated basic and diluted loss per share for the nine months ended September 30, 2018 was $0.08 per share as compared to a loss of $0.35 per share for the same period in 2017, a decrease in loss per share of $0.27. The decrease in loss per share for the nine months ended September 30, 2018, is due largely to an increase in gross profit of $616,748, as well as a decrease of $234,007 in operating expenses compared to the prior year period.

Off-Balance Sheet Arrangements

Lease expense under all operating leases for the three months ended September 30, 2018 and 2017 was $6,056 and $4,615 respectively. For the nine months ended September 30, 2018 and 2017, lease expense under all operating leases was $19,164 and $13,114 respectively.

Liquidity and Capital Resources

Working capital was $2,621,501 as of September 30, 2018, as compared to $2,548,692 at December 31, 2017, an increase of $72,809. The increase in working capital is due primarily to increases in accounts receivable and inventory and a decrease in short term debt, partly offset by an increase in accrued expenses and other current liabilities as well as contract liabilities related to tooling contracts. Cash on hand decreased $954,148, due largely to net payments on the Revolver of $334,830, the discharge of subordinated debt of $350,000 and payment on term notes of $304,762.

Trade accounts receivable, net of allowance for doubtful accounts, were $2,929,717 and $2,595,248 at September 30, 2018 and December 31, 2017, respectively, an increase of $334,469. The increase is due largely to higher sales in the third quarter of 2018 compared to the fourth quarter of 2017.

Inventories increased by $407,586 from December 31, 2017 to September 30, 2018, due primarily to an increase in work-in-process of $253,229 driven largely by an increase in tooling in-process.

Accounts payable decreased $86,616 from December 31, 2017 to September 30, 2018 due to the timing of cash disbursements. Accrued expenses and other current liabilities increased $297,228 in part due to the timing of inventory receipts and an increase in accrued payroll. Contract liabilities increased $186,761 due to increased customer deposits and advance invoicing for in-process tooling.

Capital equipment expenditures were $456,488 for the nine months ended September 30, 2018, due in part to expenditures related to machinery and equipment for the contract manufacturing of machined components in the medical device and military and law enforcement industries, as well as computer software and hardware, and thermoplastic injection molding and quality inspection equipment compared to $868,716 for the nine months ended September 30, 2017 for machinery and equipment primarily for the contract manufacturing of machined orthopedic implants and instruments as well as thermoplastic injection molding.

At September 30, 2018, the Company's total debt was $5,601,702 as compared to $6,575,241 at December 31, 2017, a decrease of $973,539. The decrease is due in part to $304,762 in payments on term debt as well as the discharge of $350,000 of subordinated debt and net payments on the Revolver of $334,830.

The Company has a three-year credit agreement with a Massachusetts trust company. The credit agreement includes a revolving line of credit of up to $5.0 million, a machinery and equipment term loan of $2.5 million and a real estate term loan of $2.0 million. The credit agreement contains both financial and non-financial covenants, and is secured by substantially all assets of the Company and a mortgage encumbering certain real property.

The Revolver is subject to certain borrowing base limitations, primarily related to conditions of the Company's accounts receivable and inventory. The credit agreement provides for a daily sweep of cash balances against the balance of the Revolver. Amounts available to borrow under the Revolver are $1,509,555 at September 30, 2018.

The Term Loans require aggregate monthly principal payments of approximately $38,095, payable on the first day of each month. The Equipment Loan is based upon an 84 month amortization with a balloon payment of approximately $1,458,333 due and payable in full upon maturity on December 29, 2020. The Real Estate Loan is based upon a 240 month amortization with a balloon payment of approximately $1,708,333 due and payable in full upon maturity on December 29, 2020.

On December 29, 2017, as part of entering into the credit agreement mentioned above, the Company obtained funds to discharge the subordinated debt. On January 2, 2018, the Company discharged the notes, totaling an aggregate principal amount of $350,000, including the subordinated notes held by three related parties. The Company carried $350,000 as restricted cash at December 31, 2017 for this purpose.

No dividends were declared or paid in the three or nine months ended September 30, 2018 and 2017.

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

Summary of Changes in Cash Position

As of September 30, 2018, the Company had cash on hand of $2,840, as the Company's cash is swept daily against the Revolver in accordance with the Company's credit agreement. For the nine months ended September 30, 2018, net cash provided by operating activities was $528,982. Net cash used in investing activities for the nine months ended September 30, 2018 was $459,149. Net cash used in financing activities for the nine months ended September 30, 2018 was $1,023,981. The net cash flows for the nine months ended September 30, 2018 are discussed in further detail below.

Operating Cash Flows

For the nine months ended September 30, 2018, net cash provided by operating activities was $528,982. Cash provided by operating activities was primarily impacted by an increase of $297,228 in accrued expenses and other current liabilities as well as an increase of $186,761 in contract liabilities related to customer deposits for tooling. Cash provided by operating activities was also impacted by non-cash add-backs for depreciation and amortization of $1,130,000, share-based compensation of $90,541 and non-cash interest expense of $50,443. These sources of cash were partly offset by uses of cash as a result of an increase of $483,847 in inventory, an increase of $334,469 in accounts receivable, an increase of $98,922 in prepaid expenses and other current assets as well as a decrease in accounts payable of $86,616.

Investing Cash Flows

For the nine months ended September 30, 2018, net cash used in investing activities was $459,149. The net cash used was for capital expenditures of $456,488, due in part to expenditures related to machinery and equipment for the contract manufacturing of machined components in the medical device and military and law enforcement industries, as well as computer software and hardware, and thermoplastic injection molding and quality inspection equipment.

Financing Cash Flows

For the nine months ended September 30, 2018, net cash used in financing activities was $1,023,981. Cash was used for net payments on the Revolver of $334,830, the discharge of subordinated debt of $350,000 and payments on term notes of $304,762, and debt issuance costs of $34,389.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2018, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 6. Exhibit Index

Exhibit Number	Description of Exhibit	Page
3.0	Certificate of Incorporation (incorporated by reference to the Company's Registration Statement on Form S-18 as filed with the Commission in April 1988, Registration Statement No. 33-20945-FW).	
3.1	Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the Commission on July 1, 2011).	
3.2	Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q as filed with the Commission on August 13, 2015).	
4.0	Form of Certificate evidencing shares of the Company's Common Stock (incorporated by reference to the Company's Registration Statement on Form S-18 as filed with the Commission in April 1988, Registration Statement No. 33-20945-FW).	
4.1	Certificate of Amendment of Certificate of Incorporation dated March 8, 2017 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on March 14, 2017).	
4.10*	2010 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 as filed with the Commission on May 6, 2010, Registration Statement No. 333-166600).	
4.11	Form of Subordinated Note (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on December 23, 2013).	
4.12	Form of Subordination Agreement (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the Commission on December 23, 2013)	
4.13	Form of Warrant to Purchase Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K as filed with the Commission on December 23, 2013).	
4.14	Form of Amended and Restated Subordinated Promissory Note (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on October 17, 2016).	
4.15	Form of Amendment No. 1 to Warrant to Purchase Shares of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K as filed with the Commission on October 17, 2016).	
10.51	Loan and Security Agreement between UniBank for Savings and Arrhythmia Research Technology, Inc. and Micron Products, Inc. dated March 29, 2013 (incorporated by reference to Exhibit 10.51 to the Company's Quarterly Report on Form 10-Q as filed with the Commission on July 1, 2013).	
10.61	Fourth Amendment to Loan and Security Agreement and Commercial Equipment Line of Credit Promissory Note dated September 19, 2015 (incorporated by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q as filed with the Commission on August 13, 2015).	
10.62		

	Fifth Amendment to Loan and Security Agreement dated as of November 15, 2016 (incorporated by reference to Exhibit 10.62 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017).	
10.63	Commercial Term Promissory Note dated November 15, 2016 (incorporated by reference to Exhibit 10.63 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017).	
10.64	Commercial Equipment Line of Credit Promissory Note dated November 15, 2016 (incorporated by reference to Exhibit 10.64 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017).	
10.65*	Executive Incentive Plan (incorporated by reference to Exhibit 10.65 to the Company's Current Report on Form 8-K as filed with the Commission on December 6, 2016).	
10.66*	Employment Agreement between the Company and Salvatore Emma, Jr. dated as of January 1, 2017 (incorporated by reference to Exhibit 10.66 to the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017).	
10.67*	Employment Agreement between the Company and Derek T. Welch dated as of January 1, 2017 (incorporated by reference to Exhibit 10.67 to the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2016 as filed with the Commission on March 22, 2017).	
10.68	Sixth Amendment to Loan and Security Agreement dated September 16, 2017 (incorporated by reference to Exhibit 10.68 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 as filed with the Commission on August 11, 2017).	
10.69	Forbearance Agreement between UniBank for Savings, Micron Solutions, Inc. and Micron Products, Inc. dated September 29, 2017 (incorporated by reference to Exhibit 10.69 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, as filed with the Commission on November 13, 2017).	
10.70	Credit and Security Agreement between Micron Products, Inc. and Rockland Trust Company dated December 29, 2017 (incorporated by reference to Exhibit 10.70 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).	
10.71	General Security Agreement between the Company and Rockland Trust Company dated December 29, 2017 (incorporated by reference to Exhibit 10.71 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).	
10.72	Mortgage, Security Agreement and Financing Statement entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.72 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).	
10.73	M&E Term Loan Note entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.73 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).	
10.74	Real Estate Term Loan Note entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.74 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).	
10.75	Revolver Note entered into by Micron Products, Inc. dated December 29, 2017 (incorporated by reference to Exhibit 10.75 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).	
10.76	General Continuing Guarantee entered into by the Company dated as of December 29, 2017 (incorporated by reference to Exhibit 10.76 to the Company's Annual Report on Form 10-K for fiscal year end December 31, 2017, as filed with the Commission on March 26, 2018).	
21	Subsidiaries (incorporated by reference to Exhibit 21.0 to the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2010 as filed with the Commission on March 23, 2011).	
31.1**	Certification of the CEO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	X-1

31.2**	Certification of the CFO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	X-2
32.1**	Certification of the CEO pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X-3
32.2**	Certification of the CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X-4
101.INS†	XBRL Instance Document	
101.SCH†	XBRL Taxonomy Extension Schema Document	
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document	
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document	

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

**Filed herewith

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

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SIGNATURES

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

	MICRON SOLUTIONS, INC.
November 13, 2018	By: /s/ Salvatore Emma, Jr. Salvatore Emma, Jr. President and Chief Executive Officer (principal executive officer)
	By: /s/ Derek T. Welch Derek T. Welch Chief Financial Officer (principal financial and accounting officer)

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