

**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 DECEMBER 28, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE PERIOD FROM **TO**

KEY TRONIC CORPORATION

(Exact name of registrant as specified in its charter)

Washington
(State of Incorporation)

91-0849125

(I.R.S. Employer Identification No.)

**N. 4424 Sullivan Road
Spokane Valley, Washington 99216**
(Address of principal executive offices)

(509) 928-8000
(Registrant's telephone number, including area code)

N/A

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

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

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|----------------------------|-----------------------|--|
| Common Stock, no par value | KTCC | NASDAQ Global Market |

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 during the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) for the preceding 12 months (or for such shorter period that the registrant was required to submit 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 February 4, 2025, 10,761,871 shares of common stock, no par value (the only class of common stock), were outstanding.

KEY TRONIC CORPORATION

Index

| | Page No. |
|--------------------------------------|--|
| PART I. | |
| <u>FINANCIAL INFORMATION:</u> | |
| Item 1. | <u>Financial Statements (Unaudited):</u> 4 |
| | <u>Condensed Consolidated Balance Sheets</u> 4 |
| | <u>Condensed Consolidated Statements of Operations</u> 5 |
| | <u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> 6 |
| | <u>Condensed Consolidated Statements of Cash Flows</u> 7 |
| | <u>Condensed Consolidated Statements of Shareholders' Equity</u> 8 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> 8 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 21 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> 37 |
| Item 4. | <u>Controls and Procedures</u> 37 |
| PART II. | |
| <u>OTHER INFORMATION:</u> | |
| Item 1. | <u>Legal Proceedings</u> 38 |
| Item 1A. | <u>Risk Factors</u> 38 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds* 38 |
| Item 3. | Defaults upon Senior Securities* 38 |
| Item 4. | Mine Safety Disclosures* 38 |
| Item 5. | <u>Other Information</u> 39 |
| Item 6. | <u>Exhibits</u> 39 |
| <u>Signatures</u> | 40 |

* Items are not applicable

"We," "us," "our," "Company," and "Key Tronic," unless the context otherwise requires, means Key Tronic Corporation and its subsidiaries.

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

| | December 28, 2024 | June 29, 2024 |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,244 | \$ 4,752 |
| Trade receivables, net of credit losses of \$ 2,931 and \$ 2,918 | 113,132 | 132,559 |
| Contract assets | 18,892 | 21,250 |
| Inventories | 100,709 | 105,099 |
| Other, net of credit losses of \$ 1,496 and \$ 1,679 | 24,159 | 24,739 |
| Total current assets | <u>261,136</u> | <u>288,399</u> |
| Property, plant and equipment, net | 27,123 | 28,806 |
| Operating lease right-of-use assets, net | 13,829 | 15,416 |
| Other assets: | | |
| Deferred income tax asset | 19,287 | 17,376 |
| Other | 6,454 | 5,346 |
| Total other assets | <u>25,741</u> | <u>22,722</u> |
| Total assets | <u><u>\$ 327,829</u></u> | <u><u>\$ 355,343</u></u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 63,585 | \$ 79,394 |
| Accrued compensation and vacation | 6,218 | 6,510 |
| Current portion of long-term debt | 5,063 | 3,123 |
| Other | 18,904 | 15,149 |
| Total current liabilities | <u>93,770</u> | <u>104,176</u> |
| Long-term liabilities: | | |
| Long-term debt, net | 106,020 | 116,383 |
| Operating lease liabilities | 8,429 | 10,312 |
| Deferred income tax liability | 9 | 263 |
| Other long-term obligations | 114 | 219 |
| Total long-term liabilities | <u>114,572</u> | <u>127,177</u> |
| Total liabilities | <u><u>208,342</u></u> | <u><u>231,353</u></u> |
| Commitments and contingencies (Note 8) | | |
| Shareholders' equity: | | |
| Common stock, no par value—shares authorized 25,000; issued and outstanding 10,762 and 10,762 shares, respectively | 47,367 | 47,284 |
| Retained earnings | 73,131 | 76,921 |
| Accumulated other comprehensive (loss) | (1,011) | (215) |
| Total shareholders' equity | <u>119,487</u> | <u>123,990</u> |
| Total liabilities and shareholders' equity | <u><u>\$ 327,829</u></u> | <u><u>\$ 355,343</u></u> |

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Uaudited, in thousands, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 28, 2024 | December 30, 2023 | December 28, 2024 | December 30, 2023 |
| Net sales | \$ 113,853 | \$ 147,847 | \$ 245,411 | \$ 297,959 |
| Cost of sales | 106,147 | 136,084 | 224,402 | 275,334 |
| Gross profit | 7,706 | 11,763 | 21,009 | 22,625 |
| Research, development and engineering expenses | 2,320 | 1,758 | 4,609 | 3,999 |
| Selling, general and administrative expenses | 6,507 | 6,057 | 13,077 | 11,841 |
| Gain on insurance proceeds, net of losses | — | — | — | (431) |
| Total operating expenses | 8,827 | 7,815 | 17,686 | 15,409 |
| Operating income (loss) | (1,121) | 3,948 | 3,323 | 7,216 |
| Interest expense, net | 3,904 | 2,961 | 7,167 | 5,972 |
| Income (loss) before income taxes | (5,025) | 987 | (3,844) | 1,244 |
| Income tax provision (benefit) | (111) | (97) | (54) | (175) |
| Net income (loss) | \$ (4,914) | \$ 1,084 | \$ (3,790) | \$ 1,419 |
| Net income (loss) per share — Basic | \$ (0.46) | \$ 0.10 | \$ (0.35) | \$ 0.13 |
| Weighted average shares outstanding — Basic | 10,762 | 10,762 | 10,762 | 10,762 |
| Net income (loss) per share — Diluted | \$ (0.46) | \$ 0.10 | \$ (0.35) | \$ 0.13 |
| Weighted average shares outstanding — Diluted | 10,762 | 10,889 | 10,762 | 10,889 |

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | December 28, 2024 | December 30, 2023 | December 28, 2024 | December 30, 2023 |
| Comprehensive income (loss): | | | | |
| Net income (loss) | \$ (4,914) | \$ 1,084 | \$ (3,790) | \$ 1,419 |
| Other comprehensive income (loss): | | | | |
| Unrealized gain (loss) on hedging instruments, net of tax | 42 | 230 | (796) | 288 |
| Comprehensive income (loss) | <u>\$ (4,872)</u> | <u>\$ 1,314</u> | <u>\$ (4,586)</u> | <u>\$ 1,707</u> |

Other comprehensive income (loss) for the three months ended December 28, 2024 and December 30, 2023, is reflected net of tax expense (benefit) of approximately \$0.0 million and \$0.1 million, respectively. Other comprehensive (loss) for the six months ended December 28, 2024 and December 30, 2023, is reflected net of tax expense (benefit) of approximately \$(0.2) million and \$0.1 million, respectively.

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited, in thousands)

| | Six Months Ended | |
|---|--------------------------|--------------------------|
| | December 28, 2024 | December 30, 2023 |
| Operating activities: | | |
| Net income (loss) | \$ (3,790) | \$ 1,419 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 5,536 | 5,498 |
| Amortization of interest rate swap | — | 97 |
| Amortization of deferred loan costs | 1,286 | 137 |
| Noncash lease expense | 2,371 | 2,928 |
| Provision for warranty | 16 | 138 |
| Provision for credit losses | 372 | 49 |
| Loss (gain) on disposal of assets | 8 | (36) |
| Gain on insurance proceeds, net of losses | — | (431) |
| Share-based compensation expense | 83 | 111 |
| Deferred income taxes | (2,166) | (1,213) |
| Noncash accrued compensation benefit | — | (3,907) |
| Changes in operating assets and liabilities: | | |
| Trade receivables | 19,415 | 15,708 |
| Contract assets | 2,361 | 2,155 |
| Inventories | 4,390 | 13,808 |
| Other assets | (3,922) | 417 |
| Accounts payable | (15,809) | (24,541) |
| Accrued compensation and vacation | (292) | (3,768) |
| Other liabilities | 1,678 | 511 |
| Cash provided by operating activities | <u>11,537</u> | <u>9,080</u> |
| Investing activities: | | |
| Purchase of property and equipment | (821) | (2,609) |
| Proceeds from insurance | — | 2,249 |
| Cash used in investing activities | <u>(821)</u> | <u>(360)</u> |
| Financing activities: | | |
| Payment of financing costs | (2,580) | (625) |
| Repayments of long term debt | (2,294) | (1,457) |
| Borrowings under revolving credit agreement | 310,646 | 272,755 |
| Repayments of revolving credit agreement | (343,489) | (278,643) |
| Principal payments on finance leases | (1,507) | (2,561) |
| Proceeds from issuance of long-term debt | 28,000 | 1,161 |
| Cash used in financing activities | <u>(11,224)</u> | <u>(9,370)</u> |
| Net decrease in cash and cash equivalents | (508) | (650) |
| Cash and cash equivalents, beginning of period | 4,752 | 3,603 |
| Cash and cash equivalents, end of period | <u>\$ 4,244</u> | <u>\$ 2,953</u> |
| Supplemental cash flow information: | | |
| Interest payments | \$ 5,986 | \$ 6,015 |
| Income tax payments, net of refunds | \$ 458 | \$ 1,602 |
| Recognition of operating lease liabilities and right-of-use assets | \$ 784 | \$ 3,575 |

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited, in thousands)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | December 28, 2024 | December 30, 2023 | December 28, 2024 | December 30, 2023 |
| Total shareholders' equity, beginning balances | \$ 124,343 | \$ 131,069 | \$ 123,990 | \$ 130,617 |
| Common stock (shares): | | | | |
| Beginning balances | 10,762 | 10,762 | 10,762 | 10,762 |
| Ending balances | <u>10,762</u> | <u>10,762</u> | <u>10,762</u> | <u>10,762</u> |
| Common stock: | | | | |
| Beginning balances | \$ 47,351 | \$ 47,786 | \$ 47,284 | \$ 47,727 |
| Share-based compensation | <u>16</u> | <u>53</u> | <u>83</u> | <u>112</u> |
| Ending balances | <u>47,367</u> | <u>47,839</u> | <u>47,367</u> | <u>47,839</u> |
| Retained Earnings: | | | | |
| Beginning balances | \$ 78,045 | \$ 83,321 | \$ 76,921 | \$ 82,986 |
| Net income | <u>(4,914)</u> | <u>1,084</u> | <u>(3,790)</u> | <u>1,419</u> |
| Ending balances | <u>73,131</u> | <u>84,405</u> | <u>73,131</u> | <u>84,405</u> |
| Accumulated other comprehensive income (loss): | | | | |
| Beginning balances | \$ (1,053) | \$ (39) | \$ (215) | \$ (97) |
| Unrealized gain (loss) on hedging instruments, net | <u>42</u> | <u>230</u> | <u>(796)</u> | <u>288</u> |
| Ending balances | <u>(1,011)</u> | <u>191</u> | <u>(1,011)</u> | <u>191</u> |
| Total shareholders' equity, ending balances | <u>\$ 119,487</u> | <u>\$ 132,435</u> | <u>\$ 119,487</u> | <u>\$ 132,435</u> |

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by Key Tronic Corporation and subsidiaries (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. The year-end condensed consolidated balance sheet information was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2024.

The Company's reporting period is a 52/53 week fiscal year ending on the Saturday closest to June 30. The three month and six month periods ended December 28, 2024 and December 30, 2023, were both 13 week periods. Fiscal year 2025 will end on June 28, 2025, which is a 52 week year. Fiscal year 2024 which ended on June 29, 2024, was also a 52 week year.

Management's Assessment of Liquidity

Historically, due to the timing between the procurement of raw materials, production cycle and payment from our customers, we have financed operations and met our capital expenditure requirements primarily through cash flows provided by operations and borrowings under our credit facilities. We generated an operating loss and net loss of \$(1.1) million and \$(4.9) million, respectively, during the 3-month period ended December 28, 2024, and have positive working capital of \$167.4 million as of December 28, 2024. Based on current projections, we anticipate generating cash from operations as revenue is expected to increase during the third quarter of fiscal year 2025 along with anticipated cost savings from ongoing restructurings.

On December 3, 2024, we entered into an asset-based credit agreement with BMO Bank, N.A that provides for an asset-based senior secured revolving credit facility of up to \$115 million, maturing on December 3, 2029. On December 3, 2024, we also entered into a \$ 28 million term loan credit agreement with Callodine Commercial Finance, LLC. As of December 28, 2024, approximately \$18.1 million was available under the credit facility. In addition, MXN16 million (\$0.8 million USD) was available under the line of credit with Banorte Financial Group. Additionally, \$4.2 million of cash was on hand. We believe that projected cash from operations and funds available under our asset-based revolving credit facility will be sufficient to meet our working and fixed capital requirements for at least the next 12 months.

2. Significant Accounting Policies

Reclassifications

Certain prior period reclassifications were made to conform with the current period presentation. These reclassifications had no effect on reported income, comprehensive income, cash flows, total assets, or shareholders' equity as previously reported.

Allowance for Credit Losses

The Company evaluates the collectability of accounts receivable and records an allowance for credit losses, which reduces the receivables to an amount that management reasonably estimates will be collected. A specific allowance is recorded against receivables considered to be impaired based on the Company's knowledge of the financial condition of the customer, and a general allowance is calculated and applied to remaining receivables based on the Company's historical collection experience and forecasted collection ability. In determining the amount of the allowance, the Company considers several factors including the aging of the receivables, the current business environment and historical experience. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Leases

Lease assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using the Company's incremental borrowing rate, unless the implicit rate is readily determinable. Our incremental borrowing rate represents the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. Lease assets also include any lease prepayments. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Leases are classified as finance or operating, with

classification affecting the pattern and classification of expense recognition in the consolidated statements of income. For further information, please refer to Footnote "Leases" of the "Notes to Consolidated Financial Statements."

Revenue Recognition

The first step in its process for revenue recognition is to identify the contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations. A contract can be written, oral, or implied. The Company generally enters into manufacturing service agreements ("MSA") with its customers that outline the terms of the business relationship between the customer and the Company. This includes matters such as warranty, indemnification, transfer of title and risk of loss, liability for excess and obsolete inventory, pricing, payment terms, etc. The Company will also bid on a program-by-program basis for customers in which an executed MSA may not be in place. In these instances, as well as when we have an MSA in place, we receive customer purchase orders for specific quantities and timing of products. As a result, the Company considers its contract with a customer to be the combination of the MSA and the purchase order. The transaction price is fixed and set forth in each purchase order. In the Company's normal course of business, there are no variable pricing components, or material amounts refunded to customers in the form of refunds or rebates.

The Company assesses whether control of the product or services promised under the contract is transferred to the customer at a point in time (shipment) or over time (as we manufacture the product). The Company is first required to evaluate whether its contracts meet the criteria for 'over-time' or 'point-in-time' recognition. The Company has determined that for the majority of its contracts the Company is manufacturing products for which there is no alternative use due to the unique nature of the customer-specific product, IP and other contract restrictions. The Company has an enforceable right to payment including a reasonable profit for performance completed to date with respect to these contracts. As a result, revenue is recognized under these contracts 'over-time' based on the input cost-to-cost method as it better depicts the transfer of control. This input method is based on the ratio of costs incurred to date as compared to the total estimated costs at completion of the performance obligation. For all other contracts that do not meet these criteria, such as manufacturing contracts for which the terms do not provide an enforceable right to payment for performance completed to date, the Company recognizes revenue when it has transferred control of the related manufactured products which generally occurs upon shipment to the customer. Revenue from engineering services is recognized over time as costs related to the services are incurred, which approximates proportional performance of the service. This method is used because management considers it to be the best available measure of progress on the contracts. Revenue from scrap and excess inventory sales is recognized at the point-in-time of scrap at the customers direction, or, if applicable, shipment of the material to the customer.

Earnings Per Common Share

Basic earnings per common share (EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income (loss) by the combination of other potentially dilutive weighted average common shares and the weighted average number of common shares outstanding during the period using the treasury stock method. The computation assumes the proceeds from the exercise of equity awards were used to repurchase common shares at the average market price during the period. The computation of diluted EPS does not assume conversion, exercise, or contingent issuance of common stock equivalent shares that would have an anti-dilutive effect on EPS.

Derivative Instruments and Hedging Activities

The Company has entered into foreign currency forward contracts which are accounted for as cash flow hedges in accordance with ASC 815, Derivatives and Hedging. The effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and is reclassified into earnings in the same period in which the underlying hedged transaction affects earnings. The derivative's effectiveness represents the change in fair value of the hedge that offsets the change in fair value of the hedged item.

The Company uses derivatives to manage the variability of foreign currency fluctuations of expenses in our Mexico facilities. The foreign currency forward contracts have terms that are matched to the underlying transactions being hedged. As a result, these transactions fully offset the hedged risk and no ineffectiveness has been recorded.

The Company's foreign currency forward contracts potentially expose the Company to credit risk to the extent the counterparty may be unable to meet the terms of the agreement. The Company minimizes such risk by utilizing a counterparty with a strong credit rating. The Company's counterparty to the foreign currency forward contracts is a major banking institution. This institution does not require collateral for the contracts, and the Company believes that the risk of the counterparty failing to meet their contractual obligations is remote. The Company does not enter into derivative instruments for trading or speculative purposes.

Income Taxes

We compute our interim income tax provision through the use of an estimated tax rate (ETR) applied to year-to-date operating results and specific events that are discretely recognized as they occur. In determining the estimated annual ETR, we analyze various factors, including projections of our annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates, and certain circumstances with respect to valuation allowances or other unusual or non-recurring tax adjustments, are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated annual ETR.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences and benefits attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as tax credit and net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities for a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.

We utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments based on new assessments and changes in estimates and which may not accurately forecast actual outcomes. Our policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense. The tax years 2005 through the present remain open to examination by the major U.S. taxing jurisdictions to which we are subject. Refer to Note 5 for further discussions.

Recently Issued Accounting Standards

On November 4, 2024 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures. The ASU requires entities to disclose in the notes to the financial statements specified information about certain costs and expenses. The ASU applies to the Company's annual reporting period beginning in fiscal year 2028 and interim reporting periods beginning in fiscal year 2029. The Company does not anticipate early adoption of the new disclosure standard.

On December 14, 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The ASU requires entities to disclose more detailed information relating to their reconciliation of statutory tax rate to effective tax rate, income taxes paid by jurisdiction, pretax income (or loss) from continuing operations, and income tax expense (or benefit). The ASU applies to the Company's annual reporting period beginning in fiscal year 2026. The Company does not anticipate early adoption of the new disclosure standards.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07), which requires public entities to disclose information about their reportable segments' oversight and significant expenses on an interim and annual basis. The ASU is effective for the annual reporting period beginning in fiscal year 2025 and for interim periods beginning in fiscal year 2026. Early adoption is permitted. The Company is currently evaluating the guidance and its impact to the financial statements.

3. Inventories

Inventories as of December 28, 2024 are \$ 100.7 million compared to \$105.1 million as of June 29, 2024. The components of inventories consist of the following (in thousands):

| | December 28, 2024 | June 29, 2024 |
|----------------------------|-------------------|-------------------|
| | (in thousands) | |
| Raw materials and supplies | \$ 79,735 | \$ 80,570 |
| Work-in-process | 20,974 | 24,529 |
| Inventories | \$ 100,709 | \$ 105,099 |

4. Long-Term Debt

| | Maturity Date | Interest Rate | December 28, 2024 | June 29, 2024 |
|--|--------------------|---------------|-------------------|-------------------|
| | (in thousands) | | | |
| Asset-based senior secured revolving credit facility (1) | December 3, 2029 | 7.4% | \$ 75,566 | \$ 107,149 |
| Domestic term loan - Callodine (2) | December 3, 2029 | 11.6% | 28,000 | — |
| Foreign line of credit (3) | December 11, 2026 | 13.3% | 4,143 | 5,403 |
| Domestic term loans - Balboa (4) | September 19, 2030 | 6% to 8% | 4,127 | 4,535 |
| Foreign term loan - Banorte (5) | April 24, 2026 | 5.5% | 1,600 | 2,200 |
| Domestic term loan - Bank of America (6) | August 14, 2025 | 4.9% | — | 1,277 |
| Total debt | | | 113,436 | 120,564 |
| Less: current portion of debt | | | (5,063) | (3,123) |
| Less: unamortized financing costs | | | (2,353) | (1,059) |
| Long-term debt, net | | | \$ 106,020 | \$ 116,382 |

(1) On December 3, 2024, Key Tronic Corporation (the "Company") entered into an asset-based credit agreement (the "Credit Agreement") among the Company, certain domestic subsidiaries (as co-borrowers or guarantors), BMO Bank, N.A (the "Bank"), as administrative agent and swing line lender, BMO Capital Markets as arranger and book runner, and certain financial institutions, as lenders. The Credit Agreement provides for an asset-based senior secured revolving credit facility (the "Credit Facility") of up to \$115 million, maturing on December 3, 2029.

Generally, under the Credit Agreement and at the Company's option: (i) each SOFR Loan shall bear interest at a rate per annum equal to Adjusted Term SOFR (Term SOFR plus 0.10%, subject to a floor of 0.00%) plus an applicable margin of 2.50% to 3.00%, depending on the availability of borrowing amounts under the Credit Agreement; and (ii) each Base Rate Loan, Swing Line Loan or other Obligation shall bear interest at a rate per annum equal to the Base Rate (subject to a floor of 1.00%) plus an applicable margin of 1.50% to 2.00%, depending on the availability of borrowing amounts under the Credit Agreement. As of December 28, 2024, the applicable margin was 2.75% for SOFR Loans and 1.75% for Base Rate Loans. If there is an event of default under the Credit Agreement, all loans and other obligations may bear interest at a rate of an additional 2.00% on the otherwise applicable interest rates. In addition to the applicable interest rates, the Company is required to pay a fee of 0.2% per annum on the unused portion of the Credit Facility, monthly in arrears. Availability on the line of credit is generally determined based on eligible inventory and accounts receivable balances.

Proceeds from the Credit Facility and the Term Loan discussed below were used to pay-off the Company's prior loan and security agreement, as amended, with Bank of America, N.A. (with the related credit facility, the "Prior Credit Facility") in the amount of \$99.7 million, as well as its outstanding equipment term loan, and financing costs related to the Credit Agreement. The Term Loan, may also be used to pay-off certain other existing debt, to issue letters of credit, and for other business purposes, including working capital needs. As of December 28, 2024, the Company had an outstanding balance under the asset-based revolving credit facility of \$75.6 million, no outstanding letters of credit and \$18.1 million available for future borrowings.

On August 14, 2020, the Company entered into a loan agreement with Bank of America ("Loan Agreement"). The Loan Agreement, as amended, provided for an asset-based senior secured revolving credit facility with an availability of up to \$120 million, subject to the Company's borrowing base, and was set to mature on December 3, 2026. The interest rate as of December 2, 2024 at the time of pay-off was approximately 9.2%.

As of June 29, 2024, the Company had an outstanding balance under the Prior Credit Facility of \$ 107.1 million, \$0.3 million in outstanding letters of credit and \$12.9 million available for future borrowings.

(2) On December 3, 2024, the Company entered into a \$ 28 million term loan (the "Term Loan") credit agreement among the Company, certain domestic subsidiaries (as co-borrowers or guarantors), Callodine Commercial Finance, LLC ("Callodine"), as administrative agent, and certain financial institutions, as term loan lenders. The Term Loan requires quarterly repayments of principal in the amount of \$0.75 million. The remainder will be payable at maturity which is the earlier of December 3, 2029 or the maturity of the Credit Agreement described above. The Term Loan bears interest at Adjusted Term SOFR (Term SOFR plus 0.15%, subject to a floor of 3.50%) plus an applicable margin of 7.00%. If there is an event of default under the Term Loan, all loans and other obligations may bear interest at a rate of an additional 2.00% on the otherwise applicable interest rate. The Company had an outstanding balance of \$28.0 million as of December 28, 2024.

(3) On December 11, 2023, the Company entered into a loan agreement in Mexican peso with Banorte Financial Group. The agreement provides for a three-year secured line of credit up to MXN 100 million, subject to the Company's borrowing base, maturing on December 11, 2026. The credit facility bears interest at Iterbancario de Equilibrio Interest Rate plus 2.75%, and as

of December 28, 2024, was 13.3%. As of December 28, 2024, the Company had an outstanding balance under the revolving credit facility of MXN84 million (\$4.14 million USD) and MXN16 million (\$0.8 million USD) available for future borrowings.

(4) On September 19, 2023, the Company entered into a \$ 1.1 million equipment financing agreement with Ameris Bank dba Balboa Capital ("Balboa Capital"). Combining with other equipment financing agreements entered in the third quarter of fiscal year 2023, a total of \$5.5 million relates to the Company's existing manufacturing equipment that bears an interest rate range of 6% - 8% and matures in the first quarter of fiscal 2030. Under these loan agreements, equal monthly payments of \$94,000 commenced in the fourth quarter of fiscal year 2024 and will continue through the maturity of the equipment financing facility in the first quarter of fiscal 2030. The Company had an outstanding balance \$4.1 million as of December 28, 2024.

(5) On November 24, 2020, the Company entered into a \$ 6.0 million equipment financing facility related to the Company's existing manufacturing equipment that bears interest at 5.52% and matures on April 24, 2026. Under this loan agreement, equal monthly payments of \$ 100,000 commenced on May 24, 2021 and will continue through the maturity of the equipment financing facility on April 24, 2026. As of December 28, 2024, the Company had an outstanding balance of \$1.6 million. As of June 29, 2024, the Company had an outstanding balance of \$ 2.2 million.

(6) On August 14, 2020, the Company entered into a \$ 5.0 million equipment financing facility with Bank of America relating to the Company's existing U.S. manufacturing equipment that accrued interest at 4.85% and was set to mature on August 14, 2025. Under this loan agreement, equal monthly payments of approximately \$94,000 commenced on September 14, 2020 and continued through the pay-off of the Prior Credit Facility on December 4, 2024. As of June 29, 2024, the Company had an outstanding balance of \$1.3 million.

Debt maturities as of December 28, 2024 for the next five years are as follows (in thousands):

| Fiscal Years Ending | Amount |
|--|------------|
| 2025 ⁽¹⁾ | \$ 2,524 |
| 2026 | 4,894 |
| 2027 | 8,104 |
| 2028 | 4,032 |
| 2029 - Thereafter | 93,882 |
| Total debt | \$ 113,436 |
| Unamortized debt issuance costs | (2,353) |
| Long-term debt, net of debt issuance costs | \$ 111,083 |

(1) Represents scheduled payments for the remaining six-month period ending June 28, 2025.

The Company must comply with certain financial covenants, including earnings before interest, taxes, depreciation, amortization and other adjustments, availability and, if triggered, a fixed charge coverage ratio. The credit agreement requires the Company to grant certain inspection rights to Bank of Montreal, limit or restrict the Company's cash management; limit or restrict the ability of the Company to incur additional liens, make acquisitions or investments, incur additional indebtedness, engage in mergers, consolidations, liquidations, dissolutions, or dispositions, pay dividends or other restricted payments, prepay certain indebtedness, engage in transactions with affiliates, and use proceeds. As of December 28, 2024, the Company was in compliance with all financial covenants.

5. Income Taxes

The Company expects to repatriate a portion of its foreign earnings based on increased net sales growth driving additional capital requirements domestically, cash requirements for potential acquisitions and to implement certain tax strategies. The Company currently expects to repatriate approximately \$7.7 million of foreign earnings in the future. All other unremitting foreign earnings are expected to remain permanently reinvested for planned fixed assets purchases and improvements in foreign locations.

Repatriations of cash will generally be tax-free in the U.S. However, withholding taxes in China may still apply to any such future repatriations. Management has not changed its indefinite investment assertions with regard to the portion of accumulated earnings and profits in China that may be repatriated in the future. Accordingly, management estimates that future repatriations of cash from China may result in approximately \$0.8 million of withholding tax. We do not anticipate there would be any offsetting foreign tax credits in the U.S. and as such, this potential liability is a direct cost associated with actual repatriations. Withholding taxes would not apply to future repatriations from Mexico or Vietnam.

The Company has available approximately \$10.8 million of gross federal research and development tax credits as of December 28, 2024. ASC 740 requires the Company to recognize in its financial statements uncertainties in tax positions taken that may not be sustained upon examination by the taxing authorities. Accordingly, as of December 28, 2024, the Company has recorded \$2.9 million of unrecognized tax benefits associated with these federal tax credits, resulting in a net deferred tax benefit of approximately \$7.9 million.

The Company evaluated tax law changes and regulatory guidance issued through the prior fiscal year. Such changes and regulations include guidance relating to foreign tax credits and consolidated NOL carryback claims. The Company evaluated the ongoing impact of these law and regulatory changes, and determined that they did not have a material impact on its provision for income taxes. On August 16, 2022, the Inflation Reduction Act of 2022 was signed into law. The Inflation Reduction Act of 2022 includes a new book minimum tax on certain large corporations and an excise tax on corporate stock buybacks, among other provisions. The Company has evaluated the impacts of this Act, and at this time the Company does not believe they will have a material impact on our consolidated financial position, results of operations, or cash flows.

On January 27, 2021, the Company received official notice from the Vietnamese tax authorities, confirming tax benefits awarded (the "tax holiday") related to the Company's principal product line in Vietnam. The tax rate related to this product line will be zero percent for four years beginning with fiscal year 2021, then five percent for nine years, then ten percent for one year (as opposed to the normal twenty percent each year).

6. Earnings Per Share

The following table presents a reconciliation of the denominator in the basic and diluted EPS calculation and the number of antidilutive common share awards that were not included in the diluted earnings per share calculation. These antidilutive securities occur when equity awards outstanding have an option price greater than the average market price for the period.

| | Three Months Ended | | Six Months Ended | |
|--|--|-------------------|-------------------|-------------------|
| | (in thousands, except per share information) | | | |
| | December 28, 2024 | December 30, 2023 | December 28, 2024 | December 30, 2023 |
| Net income (loss) | \$ (4,914) | \$ 1,084 | \$ (3,790) | \$ 1,419 |
| Weighted average shares outstanding—basic | 10,762 | 10,762 | 10,762 | 10,762 |
| Effect of dilutive common stock awards | — | 127 | — | 127 |
| Weighted average shares outstanding—diluted | 10,762 | 10,889 | 10,762 | 10,889 |
| Net income (loss) per share—basic | \$ (0.46) | \$ 0.10 | \$ (0.35) | \$ 0.13 |
| Net income (loss) per share—diluted | \$ (0.46) | \$ 0.10 | \$ (0.35) | \$ 0.13 |
| Antidilutive shares not included in diluted earnings per share | 48 | 525 | — | 525 |

7. Stock-Based Compensation and Benefit Plans

The Company's 2024 Incentive Plan provides for equity and liability awards to employees and non-employee directors with service and performance vesting conditions in the form of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, stock awards, stock units, performance shares, performance units, and other stock-based or cash-based awards. At December 28, 2024, 1,595,362 shares were available for grant. Compensation cost is recognized on a straight-line basis over the requisite employee service period, which is generally the vesting period, and is recorded as employee compensation expense in cost of goods sold, research, development and engineering, and selling, general and administrative expenses. Share-based compensation is recognized only for those awards that are expected to vest. For SARs awards forfeitures are estimated at the date of grant based on historical experience and future expectations. Due to a lack of historical experience and a different grant pool than SARs, forfeitures for restricted stock units are accounted for prospectively as they occur.

Stock Appreciation Rights

In addition to service conditions, SARs contain a performance condition. The additional performance condition is based upon the achievement of Return on Invested Capital (ROIC) goals relative to a peer group. All awards with performance conditions are evaluated quarterly to determine the likelihood that performance metrics will be achieved during the performance period. These awards are charged to compensation expense over the requisite service period based on the number of shares expected to vest. If the performance and service conditions are attained, then the SARs cliff vest after the completion of the three-year period from date of grant and expire five years from date of grant.

| | SARs | Aggregate Intrinsic Value (in thousands) | Weighted Average Exercise Price | Remaining Contractual Life (in years) | Weighted Average |
|----------------------------------|-----------|--|---------------------------------|---------------------------------------|------------------|
| Balance, July 1, 2023 | 626,250 | — \$ | 6.41 | 2.2 | |
| SARs forfeited | (137,500) | | 6.94 | | |
| SARs expired | (101,250) | | 8.17 | | |
| Balance, December 30, 2023 | 387,500 | — \$ | 5.78 | 1.8 | |
| Balance, June 30, 2024 | 387,500 | — \$ | 5.78 | 1.8 | |
| SARs forfeited | (136,250) | | 7.17 | | |
| SARs expired | (115,000) | | 4.93 | | |
| Balance, December 28, 2024 | 136,250 | — \$ | 5.10 | 2.6 | |
| Exercisable at December 28, 2024 | — | — | — | — | — |

The Black-Scholes option valuation model is used by the Company for estimating the fair value of SARs. Option valuation models require the input of highly subjective assumptions, particularly for the expected term and expected stock price volatility. Changes in these assumptions can materially affect the fair value estimates. There were no SARs granted during the three or six months ended December 28, 2024 and December 30, 2023.

Share-based compensation expense is recognized only for those awards that are expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. This forfeiture rate will be revised, if necessary, in subsequent periods if actual forfeitures differ from the amount estimated. Total SARs expense recognized during the three months ended December 28, 2024 and December 30, 2023 was approximately \$(158,000) and \$52,000, respectively. Total SARs expense recognized during the six months ended December 28, 2024 and December 30, 2023 was approximately \$(139,000) and \$111,000, respectively.

There were no SARs exercised during the three or six month periods ended December 28, 2024 or December 30, 2023.

As of December 28, 2024, total unrecognized compensation expense for SARs awards was approximately \$ 0.1 million, which is expected to be recognized over a weighted average period of approximately 0.6 years.

Restricted Stock Units

The Company grants restricted stock units that have a performance condition and/or a service condition. Restricted stock units with only a service condition generally vest in equal annual installments over a maximum of three years. Certain restricted stock units are granted with a performance condition. The final number of shares issued will be determined annually based on the achievement of annual financial targets. Forfeitures for restricted stock units are accounted for prospectively as they occur. The fair value of restricted stock units is the market close price on the date of grant.

During the three months ended December 28, 2024, the Company granted 4,638 restricted stock units at a weighted average grant date fair value of \$5.39 per share. Total restricted stock unit expense recognized during the three months ended December 28, 2024 was approximately \$ 176,000. During the six months ended December 28, 2024, the Company granted 329,457 restricted stock units at a weighted average grant date fair value of \$4.52 per share. Total restricted stock unit expense recognized during the six months ended December 28, 2024 was approximately \$ 223,000.

As of December 28, 2024, total unrecognized compensation expense on restricted stock units was \$ 1.3 million, which is expected to be recognized over a weighted average period of approximately 2.4 years.

8. Commitments and Contingencies

Litigation and Other Matters

The Company is party to certain lawsuits or claims in the ordinary course of business. The Company does not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on the financial position, results of operations or cash flow of the Company.

Warranties

The Company provides warranties on certain product sales. Allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product return rates and expected costs to repair or to replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from management's estimates, adjustments to recognize additional cost of sales may be required in future periods. The Company's warranty reserve was approximately \$26,000 as of December 28, 2024 and \$164,000 as of June 29, 2024.

Gain from Insurance Recoveries, Net of Losses

Gain from insurance recoveries, net of losses, relate to losses incurred from storm damage to the Company's Arkansas facility on July 29, 2022, as the result of a lightning strike and were recorded throughout fiscal year 2024 and fiscal year 2023. The Company recorded no gain during the three or six months ended December 28, 2024. The Company recorded \$0.4 million of gain during the six months ended December 30, 2023, and recorded no gain during the three months ended December 30, 2023.

9. Derivative Financial Instruments

As of December 28, 2024, the Company had outstanding foreign currency forward contracts with a total notional amount of \$ 29.0 million through the end of the second quarter of fiscal year 2025. During the three months ended December 28, 2024, the Company entered into \$12.9 million of foreign currency forward contracts and settled \$5.9 million of contracts. During the same period of the previous year, the Company entered into \$ 6.5 million of foreign currency forward contracts and settled \$3.2 million of contracts.

During the six months ended December 28, 2024, the Company entered into \$ 29.0 million of foreign currency forward contracts and settled \$ 12.5 million of such contracts. During the same periods of the previous year, the Company entered into \$6.5 million of foreign currency forward contracts and settled \$3.2 million of contracts.

Changes in the fair value of the forward contracts are recognized as a component of OCI and will be recognized in cost of sales when the hedged item affects earnings. The amount of net losses expected to be reclassified into earnings in the next 12 months is \$1.3 million.

On November 6, 2019, the Company entered into an interest rate swap contract with an effective date of November 6, 2019 and a termination date of November 1, 2023, related to the borrowings outstanding under the line of credit with Wells Fargo Bank. This interest rate swap contract was terminated on August 14, 2020 when the Company entered into the Loan Agreement with Bank of America. On the date of termination this interest rate swap was in a liability position of \$776,500, which has been amortized to interest expense over the original term of the swap.

The following table summarizes the fair value of the derivative instruments in the Consolidated Balance Sheets as of December 28, 2024 and December 30, 2023 (in thousands):

| Derivatives designated as hedging instruments under Subtopic 815-20 | Balance Sheet Location | Fair Value | |
|---|---------------------------|-------------------|---------------|
| | | December 28, 2024 | June 29, 2024 |
| Foreign currency forward contracts | Other current liabilities | \$ 1,306 | \$ 277 |

The following tables summarize the gain (loss) on derivative instruments, net of tax, on the Consolidated Statements of Operations for the three months ended December 28, 2024 and December 30, 2023, respectively (in thousands):

| Derivatives Designated as Hedging Instruments | Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | AOCI Balance as of September 28, 2024 | Effective Portion Recorded In AOCI | Effective Portion Reclassified From AOCI Into Income | AOCI Balance as of December 28, 2024 |
|---|--|---|---|---|--|
| | Cost of sales | \$ 1,053 | \$ (543) | \$ 501 | \$ 1,011 |
| Forward contracts | | | | | |
| Total | | \$ 1,053 | \$ (543) | \$ 501 | \$ 1,011 |

| Derivatives Designated as Hedging Instruments | Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | AOCI Balance as of September 30, 2023 | Effective Portion Recorded In AOCI | Effective Portion Reclassified From AOCI Into Income | AOCI Balance as of December 30, 2023 |
|---|--|---|---|---|--|
| | Cost of sales | \$ — | \$ 263 | \$ (72) | \$ 191 |
| Forward contracts | | | | | |
| Interest rate swap | Interest expense | \$ (39) | \$ — | \$ 39 | \$ — |
| Total | | \$ (39) | \$ 263 | \$ (33) | \$ 191 |

The following tables summarize the gain (loss) on derivative instruments, net of tax, on the Consolidated Statements of Operations for the six months ended December 28, 2024 and December 30, 2023, respectively (in thousands):

| Derivatives Designated as Hedging Instruments | Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | AOCI Balance as of June 29, 2024 | Effective Portion Recorded In AOCI | Effective Portion Reclassified From AOCI Into Income | AOCI Balance as of December 28, 2024 |
|---|--|--|---|---|--|
| | Cost of sales | \$ 215 | \$ (2) | \$ 798 | \$ 1,011 |
| Forward contracts | | | | | |
| Total | | \$ 215 | \$ (2) | \$ 798 | \$ 1,011 |

| Derivatives Designated as Hedging Instruments | Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | AOCI Balance as of July 1, 2023 | Effective Portion Recorded In AOCI | Effective Portion Reclassified From AOCI Into Income | AOCI Balance as of December 30, 2023 |
|---|--|---------------------------------------|---|---|--|
| | Cost of sales | \$ — | \$ 263 | \$ (72) | \$ 191 |
| Forward contracts | | | | | |
| Interest rate swap | Interest expense | \$ (97) | \$ — | \$ 97 | \$ — |
| Total | | \$ (97) | \$ 263 | \$ 25 | \$ 191 |

As of December 28, 2024, the Company does not have any foreign exchange contracts with credit-risk-related contingent features. The Company is subject to the risk of fluctuating interest rates from our line of credit and foreign currency risk resulting from our China and Vietnam operations. The Company does not currently manage these risk exposures by using derivative instruments.

10. Revenue

Revenue Recognition

The Company specializes in services ranging from product manufacturing to engineering and tooling services. The first step in its process for revenue recognition is to identify the contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations. A contract can be written, oral, or implied. The Company generally enters into manufacturing service agreements ("MSA") with its customers that outline the terms of the business relationship between the customer and the Company. This includes matters such as warranty, indemnification, transfer of title and risk of loss, liability for excess and obsolete inventory, pricing, payment terms, etc. The Company will also bid on a program-by-program basis for customers in which an executed MSA may not be in place. In these instances, as well as when we have an MSA in place, we receive customer purchase orders for specific quantities and timing of products. As a result, the Company considers its contract with a customer to be the combination of the MSA and the purchase order. The transaction price is fixed and set forth in each purchase order. In the Company's normal course of business, there are no variable pricing components, or material amounts refunded to customers in the form of refunds or rebates.

The Company assesses whether control of the product or services promised under the contract is transferred to the customer at a point in time (shipment) or over time (as we manufacture the product). The Company is first required to evaluate whether its contracts meet the criteria for 'over-time' or 'point-in-time' recognition. The Company has determined that for the majority of its contracts the Company is manufacturing products for which there is no alternative use due to the unique nature of the customer-specific product, IP and other contract restrictions. The Company has an enforceable right to payment including a reasonable profit for performance completed to date with respect to these contracts. As a result, revenue is recognized under these contracts 'over-time' based on the input cost-to-cost method as it better depicts the transfer of control. This input method is based on the ratio of costs incurred to date as compared to the total estimated costs at completion of the performance obligation. For all other contracts that do not meet these criteria, such as manufacturing contracts for which the terms do not provide an enforceable right to payment for performance completed to date, the Company recognizes revenue when it has transferred control of the related manufactured products which generally occurs upon shipment to the customer. Revenue from engineering services is recognized over time as costs related to the services are incurred, which approximates proportional performance of the services. This method is used because management considers it to be the best available measure of progress on the contracts. Revenue from scrap and excess inventory sales is recognized at the point-in-time of scrap at the customers direction, or, if applicable, shipment of the material to the customer.

The Company's sales arrangements do not contain any significant financing component for its customers.

The Company generally provides a warranty for workmanship on its manufacturing contracts. Although we offer warranties on our products, our warranties are considered to be assurance-type in nature and do not cover anything beyond ensuring that the product is functioning as intended. Based on the guidance in ASC 606, assurance-type warranties do not represent separate performance obligations; therefore, the primary performance obligation in the majority of our contracts is the delivery of a specific good through the purchase order submitted by our customer.

The Company elected not to disclose information about remaining performance obligations as they are part of contracts that have expected durations of one year or less.

The Company has elected to expense costs to obtain contracts as incurred as these costs are immaterial to the financial statements.

During the first six months of fiscal year 2025, no revenues were recognized from performance obligations satisfied or partially satisfied in previous periods.

Contract Balances

A contract asset is recognized when the Company has recognized revenue, but has not issued an invoice for payment. Contract assets are classified separately on the condensed consolidated balance sheet and transferred to receivables when the right to payment becomes unconditional.

The following table summarizes the activity in the Company's contract assets during the six months ended December 28, 2024 (in thousands):

| | | Contract Assets |
|-----------------------------------|--|-------------------------|
| Beginning balance, June 29, 2024 | | \$ 21,250 |
| Revenue recognized | | 233,082 |
| Amounts collected or invoiced | | (235,440) |
| Ending balance, December 28, 2024 | | <u><u>\$ 18,892</u></u> |

Disaggregation of Revenue

The following table presents the Company's revenue disaggregated for the three and six months ended December 28, 2024 and December 30, 2023 (in thousands):

| Recognition | Revenue | | | |
|---------------|--------------------|-------------------|-------------------|-------------------|
| | Three Months Ended | | Six Months Ended | |
| | December 28, 2024 | December 30, 2023 | December 28, 2024 | December 30, 2023 |
| Over-Time | \$ 110,500 | \$ 126,635 | \$ 233,082 | \$ 258,964 |
| Point-in-Time | 3,353 | 21,212 | 12,329 | 38,995 |
| Total | \$ 113,853 | \$ 147,847 | \$ 245,411 | \$ 297,959 |

11. Leases

The Company has several commitments under operating and financing leases for warehouses, manufacturing facilities, office buildings, and equipment with initial terms that expire at various dates during the next 1 year to 7 years.

The Company has some leases that include an extension clause. Management has considered the likelihood of exercising each extension option included and estimated the duration of the extension option, for those leases management determined to be reasonably certain, in calculating the lease term for measurement of the right of use asset and liability.

For operating leases, management assumed a discount rate of 4.12%. The weighted average discount rate is disclosed in the tables below.

The components of lease cost for the three months and six months ended December 28, 2024 and December 30, 2023 were (in thousands):

| Lease cost | Classification | Three Months Ended | | Six Months Ended | |
|-------------------------|--|--------------------|-------------------|-------------------|-------------------|
| | | December 28, 2024 | December 30, 2023 | December 28, 2024 | December 30, 2023 |
| Operating lease cost | Cost of sales | \$ 1,261 | \$ 1,223 | \$ 2,600 | \$ 2,350 |
| Operating lease cost | Selling, general and administrative expenses | \$ 182 | \$ 183 | \$ 366 | \$ 367 |
| Financing lease cost | Cost of sales | \$ 866 | \$ 1,186 | \$ 2,172 | \$ 2,465 |
| Financing lease cost | Selling, general and administrative expenses | \$ 45 | \$ 49 | \$ 98 | \$ 104 |
| Total lease cost | | \$ 2,354 | \$ 2,641 | \$ 5,236 | \$ 5,286 |
| Fixed lease cost | | \$ 1,283 | \$ 1,336 | \$ 3,857 | \$ 2,434 |
| Short-term lease cost | | \$ 1,071 | \$ 1,305 | \$ 1,379 | \$ 2,852 |
| Total lease cost | | \$ 2,354 | \$ 2,641 | \$ 5,236 | \$ 5,286 |

Amounts reported in the Consolidated Balance Sheet as of December 28, 2024 and June 29, 2024 were (in thousands, except weighted average lease term and discount rate):

| | December 28, 2024 | June 29, 2024 |
|---|-------------------|---------------|
| <i>Operating Leases:</i> | | |
| Operating lease right of use assets | \$ 13,829 | \$ 15,416 |
| Operating lease liabilities ⁽¹⁾ | \$ 13,829 | \$ 15,416 |
| <i>Weighted-average remaining lease term (in years)</i> | | |
| Operating leases | 3.56 | 3.97 |
| <i>Weighted-average discount rate</i> | | |
| Operating leases | 4.12% | 4.00% |
| <i>Financing Leases ⁽²⁾:</i> | | |
| Financing lease right of use assets | \$ 2,062 | \$ 3,569 |
| Financing lease liabilities | \$ 1,304 | \$ 2,128 |
| <i>Weighted-average remaining lease term (in years)</i> | | |
| Financing leases | 0.91 | 1.06 |
| <i>Weighted-average discount rate</i> | | |
| Financing leases | 11.80% | 11.18% |

(1) The current portion of the total operating lease liabilities of \$ 5.4 million is classified under *Other Current Liabilities* resulting in \$8.4 million classified under *Operating Lease Liabilities* in the *Long-term Liabilities* section of the condensed consolidated balance sheet.

(2) The total finance lease right of use assets of \$ 2.1 million is classified under *Other Long-term Assets*. The current portion of the total finance lease liabilities of \$1.2 million is classified under *Current portion of debt, net*, resulting in \$0.1 million classified in *Other Long-term Liabilities* section of the condensed consolidated balance sheet.

Future lease payments under non-cancellable leases as of December 28, 2024 are as follows (in thousands):

| Fiscal Years Ending | Operating Leases | Finance Leases |
|--|-------------------------|-----------------------|
| 2025 (1) | \$ 2,728 | \$ 814 |
| 2026 | 4,488 | 563 |
| 2027 | 3,404 | — |
| 2028 | 2,324 | — |
| 2029 | 1,051 | — |
| Thereafter | 822 | — |
| Total undiscounted lease payments | \$ 14,817 | \$ 1,377 |
| Less: present value discount | (988) | (73) |
| Total lease liabilities | \$ 13,829 | \$ 1,304 |

(1) Represents estimated lease payments for the remaining six-month period ending June 28, 2025.

As of December 28, 2024, we have additional operating leases for commercial properties that have not yet commenced with future lease payments of approximately \$22 million.

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

FORWARD-LOOKING STATEMENTS

References in this report to "the Company," "Key Tronic," "we," "our," or "us" mean Key Tronic Corporation together with its subsidiaries, except where the context otherwise requires.

This Quarterly Report contains forward-looking statements in addition to historical information. Forward-looking statements include, but are not limited to those including such words as aims, anticipates, believes, continues, could, estimates, expects, hopes, intends, plans, predicts, projects, targets, or will, similar verbs, or nouns corresponding to such verbs, which may be forward looking. Forward-looking statements also include other passages that are relevant to expected future events, performances, and actions or that can only be fully evaluated by events that will occur in the future. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Risks and uncertainties that might cause such differences include, but are not limited to those outlined in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risks and Uncertainties that May Affect Future Results." Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to update forward-looking statements to reflect developments or information obtained after the date hereof and disclaims any obligation to do so. Readers should carefully review the risk factors described in this report and other periodic reports the Company files from time to time with the Securities and Exchange Commission, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K.

Overview

Key Tronic is a leading contract manufacturer offering value-added design and manufacturing services from its facilities in the United States, Mexico, China, and Vietnam. The Company provides its customers full engineering services, materials management, worldwide manufacturing facilities, assembly services, in-house testing, and worldwide distribution. Our customers include some of the world's leading original equipment manufacturers. Our combined capabilities and vertical integration are proving to be a desirable offering to our expanded customer base.

Our domestic and international production capability provides our customers with benefits of improved supply-chain management, reduced inventories, lower transportation costs, and reduced product fulfillment time. We continue to make investments in all of our operating facilities to give us the production capacity, capabilities and logistical advantages to continue to win new business. The following information should be read in conjunction with the consolidated financial statements included herein and with Part II Item 1A, Risk Factors included as part of this filing.

Our mission is to provide our customers with superior manufacturing and engineering services at the lowest total cost for the highest quality products, and create long-term mutually beneficial business relationships by employing our "Trust, Commitment, Results" philosophy.

Executive Summary

During the second quarter of fiscal year 2025, we won new programs involving aerospace systems and energy resilience technology products. We also completed the financing of our asset-based revolving credit facility that was set to mature on December 3, 2025 with a new asset-based revolving credit facility and term loan facility that extends the maturity of our long-term debt to December 3, 2029 and expect it to lower our cash interest expense throughout the term of the agreements.

We reported net sales of \$113.9 million, down 23.0 percent from \$147.8 million in the same period of fiscal year 2024. Net sales in the second quarter were adversely impacted by unexpected component shortages, lower-than-expected production during the holiday season, and reduced demand from certain customers which together lowered revenue by approximately \$15 million for the quarter.

Gross margin decreased to 6.8 percent in the second quarter of fiscal year 2025, compared to 8.0 percent in the same period of the prior fiscal year. The decrease in gross margin is primarily due to decreases in net sales as discussed above without corresponding decreases in fixed manufacturing costs incurred in our operations.

The concentration of our top three customers' net sales increased to 41.8 percent of total sales in the second quarter of fiscal year 2025 from 31.1 percent in the same period of the prior fiscal year. As new customer programs ramp, we expect that concentration to our top three customers will decrease.

Net sales to our largest customers may vary significantly from quarter to quarter depending on the size and timing of customer program commencement, forecasts, delays, and design modifications. We remain dependent on continued net sales to our significant customers and most contracts with customers are not firm long-term purchase commitments. We seek to maintain flexibility in production capacity by employing skilled temporary and short-term labor and by utilizing short-term leases on equipment and manufacturing facilities. In addition, our capacity and core competencies for printed circuit board assemblies, precision molding, sheet metal fabrication, tool making, assembly, and engineering can be applied to a wide variety of products.

Gross profit as a percent of net sales was 6.8 percent for the second quarter of fiscal year 2025 as compared to 8.0 percent for the same quarter of the prior fiscal year. Operating income (loss) as a percentage of net sales similarly decreased over the same period from 2.7 percent to (1.0) percent in the second quarter of fiscal year 2025.

Net loss for the second quarter of fiscal year 2025 was \$4.9 million or \$0.46 per diluted share, as compared to net income of \$1.1 million or \$0.10 per diluted share for the second quarter of fiscal year 2024. The year-over-year decrease in earnings was a result of the factors discussed above, primarily softening demand combined with the write-off of unamortized deferred loan fees in connection with refinancing debt with a new lender.

Moving into the third quarter of fiscal year 2025, while we continue to see a favorable trend of contract manufacturing returning to North America, continued increases in Mexican wages, particularly along the US-Mexico border, and potential tariffs, have reduced the competitive advantage of Mexico-based manufacturing compared to U.S.-based manufacturing. In response to this sustained and ongoing trend, the Company is restructuring its Juarez facility to focus on higher volume manufacturing, while lower volume products with higher service level requirements will migrate to our other sites. This restructuring resulted in a significant headcount reduction starting in the third quarter of fiscal year 2024, and will continue with further headcount reductions in the third quarter of fiscal year 2025. Additionally, global logistics problems, the wars in Europe, China-U.S. geopolitical tensions and related tariff increases may continue to drive OEMs to examine their traditional outsourcing strategies. We believe these customers increasingly realize they have become overly dependent on their China-based contract manufacturers not only for products, but also for design and logistics services. The decision to onshore or near shore production appears to be becoming more widely accepted as a smart long-term strategy. As a result, we see opportunities for continued growth. In the third quarter of fiscal year 2025, the Company expects a continued weakening of the Mexican Peso relative to the U.S. dollar, which may translate into improving conditions moving forward.

We maintain a strong balance sheet with a current ratio of 2.8 and a debt-to-equity ratio of 0.9 as of December 28, 2024. Total cash provided by operating activities as defined on our cash flow statement was \$11.5 million for the six months ended December 28, 2024. We believe we maintain sufficient liquidity for our expected future operations and had \$75.6 million in borrowings under our asset-based revolving credit facility with \$18.1 million remaining available and \$4.2 million of cash on hand.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are based on historical results as well as future expectations. Actual results could vary from our estimates and assumptions.

The accounting policies and estimates listed below are those that we believe are the most critical to our consolidated financial condition and results of operations. They are also the accounting policies that typically require our most difficult, subjective and complex judgments and estimates, often for matters that are inherently uncertain.

- Revenue Recognition
- Inactive, Obsolete, and Surplus Inventory Valuation
- Allowance for Credit Losses
- Income Taxes

Please refer to the discussion of critical accounting policies in our most recent Annual Report on Form 10-K for the fiscal year ended June 29, 2024, for further details.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended December 28, 2024 with the Three Months Ended December 30, 2023

The financial information and discussion below should be read in conjunction with the Consolidated Financial Statements and Notes.

The following table sets forth certain information regarding the components of our condensed consolidated statements of operations for the three months ended December 28, 2024 as compared to the three months ended December 30, 2023. It is provided to assist in assessing differences in our overall performance (in thousands):

| | Three Months Ended | | | | | |
|---------------------------------------|--------------------|----------------|----------|-------------------|----------------|-----------------|
| | December 28, 2024 | % of net sales | | December 30, 2023 | % of net sales | % point change |
| | | | | | \$ change | |
| Net sales | \$ 113,853 | 100.0 % | | \$ 147,847 | 100.0 % | \$ (33,994) — % |
| Cost of sales | 106,147 | 93.2 % | | 136,084 | 92.0 % | (29,937) 1.2 % |
| Gross profit | 7,706 | 6.8 % | | 11,763 | 8.0 % | (4,057) (1.2) % |
| Research, development and engineering | 2,320 | 2.0 % | | 1,758 | 1.2 % | 562 0.8 % |
| Selling, general and administrative | 6,507 | 5.7 % | | 6,057 | 4.1 % | 450 1.6 % |
| Total operating expenses | 8,827 | 7.7 % | | 7,815 | 5.3 % | 1,012 2.4 % |
| Operating income | (1,121) | (1.0) % | | 3,948 | 2.7 % | (5,069) (3.7) % |
| Interest expense, net | 3,904 | 3.4 % | | 2,961 | 2.0 % | 943 1.4 % |
| Income (loss) before income taxes | (5,025) | (4.4) % | | 987 | 0.7 % | (6,012) (5.1) % |
| Income tax provision (benefit) | (111) | (0.1) % | | (97) | (0.1) % | (14) — % |
| Net (loss) income | \$ (4,914) | (4.3) % | \$ 1,084 | 0.7 % | \$ (5,998) | (5.0) % |
| Effective income tax rate | 2.2 % | | (9.8) % | | | |

Net Sales

Net sales of \$113.9 million for the second quarter of fiscal year 2025 decreased by 23.0 percent as compared to net sales of \$147.8 million for the second quarter of fiscal year 2024.

The \$34.0 million decrease was due to unexpected component shortages, lower-than-expected production during the holiday season, and reduced demand from certain customers which together lowered revenue by approximately \$15 million for the quarter. Additionally, the results are due to the softening of demand from certain long-standing programs, which has caused decreases in backlog throughout fiscal year 2024 and the early part of fiscal year 2025.

Gross Profit

Gross profit as a percentage of net sales for the three months ended December 28, 2024 was 6.8 percent compared to 8.0 percent for the three months ended December 30, 2023. The decrease in gross margin is primarily due to decreases in net sales as discussed above without corresponding decreases in the fixed charges incurred in our operations.

The level of gross margin is additionally impacted by facility utilization, product mix, timing, severity and steepness of new program ramps, pricing within the electronics industry and material costs, which can fluctuate significantly from quarter to quarter.

Included in gross profit are charges related to reductions in the carrying value of our inventory due to obsolescence. We did not record any significant impairment for obsolete inventory during the three months ended December 28, 2024 or December 30, 2023. We adjust the carrying value for estimated obsolescence as necessary in an amount equal to the difference between the cost of inventory and its net realizable value based on assumptions as to future demand and market conditions. The provisions are established for inventory that we have determined customers are not contractually responsible for and also inventory that we believe customers will be unable to purchase.

Operating Expenses

There were no significant changes to operating expenses during the second quarter of fiscal year 2025. Total research, development, and engineering ("RD&E") expenses were \$2.3 million during the three months ended December 28, 2024 and \$1.8 million during the three months ended December 30, 2023, respectively. Total RD&E expenses as a percent of net sales were 2.0 percent during the three months ended December 28, 2024 and 1.2 percent during the three months ended December 30, 2023. The increase largely relates to reversals of accrued compensation balances in the prior period.

Total selling, general and administrative ("SG&A") expenses were \$6.5 million during the three months ended December 28, 2024 compared to \$6.1 million for the three months ended December 30, 2023. Total SG&A expenses as a percentage of net sales were 5.7 percent for the three months ended December 28, 2024 and 4.1 percent for the three months ended December 30, 2023. These increases are attributable to increases in third party professional services, provision for credit losses, and indirect labor.

Interest

Interest expense was \$3.9 million during the three months ended December 28, 2024 and \$3.0 million during the three months ended December 30, 2023. This increase is largely attributable to the write-off of approximately \$1.0 million of unamortized loan fees related to refinancing our debt with a new lender, as described in Note 4 of the "Notes to Consolidated Financial Statements." In connection with this refinancing, we expect our interest charges to decrease in future periods as a result of refinancing our line of credit with a new lender.

Income Taxes

The effective tax rate for the three months ended December 28, 2024 was 2.2 percent compared to (9.8) percent for the three months ended December 30, 2023. The increase was primarily due to federal research and development tax credits and permanent book-to-tax differences relative to the respective pretax income (or loss) amounts of each period.

Our judgments regarding deferred tax assets and liabilities may change due to changes in market conditions, changes in estimates, changes in tax laws or other factors. If assumptions and estimates change in the future, the deferred tax assets and liability will be adjusted accordingly and any increase or decrease will result in an additional deferred income tax expense or benefit in subsequent periods.

Comparison of the Six Months Ended December 28, 2024 with the Six Months Ended December 30, 2023

The financial information and discussion below should be read in conjunction with the Consolidated Financial Statements and Notes.

The following table sets forth certain information regarding the components of our condensed consolidated statements of operations for the six months ended December 28, 2024 as compared to the six months ended December 30, 2023. It is provided to assist in assessing differences in our overall performance (in thousands):

| | Six Months Ended | | | | | |
|---|-------------------|----------------|-------------------|----------------|-------------|----------------|
| | December 28, 2024 | % of net sales | December 30, 2023 | % of net sales | \$ change | % point change |
| Net sales | \$ 245,411 | 100.0 % | \$ 297,959 | 100.0 % | \$ (52,548) | — % |
| Cost of sales | 224,402 | 91.4 % | 275,334 | 92.4 % | (50,932) | (1.0) % |
| Gross profit | 21,009 | 8.6 % | 22,625 | 7.6 % | (1,616) | 1.0 % |
| Research, development and engineering | 4,609 | 1.9 % | 3,999 | 1.3 % | 610 | 0.6 % |
| Selling, general and administrative | 13,077 | 5.3 % | 11,841 | 4.0 % | 1,236 | 1.3 % |
| Gain on insurance proceeds, net of losses | — | — % | (431) | — % | 431 | — % |
| Total operating expenses | 17,686 | 7.2 % | 15,409 | (0.1)% | 2,277 | 7.3 % |
| Operating income | 3,323 | 1.4 % | 7,216 | 2.4 % | (3,893) | (1.0) % |
| Interest expense, net | 7,167 | 2.9 % | 5,972 | 2.0 % | 1,195 | 0.9 % |
| Income (loss) before income taxes | (3,844) | (1.6)% | 1,244 | 0.4 % | (5,088) | (2.0) % |
| Income tax provision (benefit) | (54) | — % | (175) | (0.1)% | 121 | 0.1 % |
| Net (loss) income | \$ (3,790) | (1.5)% | \$ 1,419 | 0.5 % | \$ (5,209) | (2.0) % |
| Effective income tax rate | 1.4 % | | (14.1)% | | | |

Net Sales

Net sales of \$245.4 million for the six months ended December 28, 2024 decreased by 17.6 percent as compared to net sales of \$298.0 million for the six months ended December 30, 2023.

The \$52.5 million decrease is due to unexpected component shortages, lower-than-expected production during the holiday season, and reduced demand from certain customers which together lowered revenue by approximately \$15 million for the second quarter. Additionally, the results are due to the softening of demand from certain long-standing programs, which caused decreases in backlog throughout fiscal year 2024 and the early part of fiscal year 2025. Additionally, excess inventory and scrap sales decreased significantly during the first two quarters of 2025 as certain large programs went end of life in 2024 and their final shipments of product, inventory, and any scrap were recorded at that time.

Gross Profit

Gross profit as a percentage of net sales for the six months ended December 28, 2024 was 8.6 percent compared to 7.6 percent for the six months ended December 30, 2023. These results were largely due to benefits realized from restructuring in the third quarter of fiscal year 2024 and a weakening of the Mexican Peso.

The level of gross margin is additionally impacted by facility utilization, product mix, timing, severity and steepness of new program ramps, pricing within the electronics industry and material costs, which can fluctuate significantly from quarter to quarter.

Included in gross profit are charges related to reductions in the carrying value of our inventory due to obsolescence. We did not record any significant impairment for obsolete inventory during the six months ended December 28, 2024 or December 30, 2023. We adjust the carrying value for estimated obsolescence as necessary in an amount equal to the difference between the cost of inventory and its net realizable value based on assumptions as to future demand and market conditions. The provisions are established for inventory that we have determined customers are not contractually responsible for and also inventory that we believe customers will be unable to purchase.

Operating Expenses

There were no significant changes to operating expenses during the first six months of fiscal year 2025. Total research, development, and engineering ("RD&E") expenses were \$4.6 million during the six months ended December 28, 2024 and \$4.0 million during the six months ended December 30, 2023, respectively. Total RD&E expenses as a percent of net sales were 1.9 percent during the six months ended December 28, 2024 and 1.3 percent during the six months ended December 30, 2023. The increase largely relates to reversals of accrued compensation balances in the prior period.

Total selling, general and administrative ("SG&A") expenses were \$13.1 million during the six months ended December 28, 2024 compared to \$11.8 million for the six months ended December 30, 2023. Total SG&A expenses as a percentage of net sales were 5.3 percent for the six months ended December 28, 2024 and 4.0 percent for the six months ended December 30, 2023. These increases are attributable to increases in third party professional services, provision for credit losses, and indirect labor.

Interest

Interest expense was \$7.17 million during the six months ended December 28, 2024 and \$5.97 million during the six months ended December 30, 2023. This increase is largely attributable to the write-off of approximately \$1.0 million of unamortized loan fees related to refinancing our debt with a new lender in the second quarter of fiscal year 2025. In connection with this refinancing, we expect our interest charges to decrease in future periods.

Income Taxes

The effective tax rate for the six months ended December 28, 2024 was 1.4 percent compared to (14.1) percent for the six months ended December 30, 2023. The increase was primarily due to federal research and development tax credits and permanent book-to-tax differences relative to the respective pretax income (or loss) amounts of each period.

Our judgments regarding deferred tax assets and liabilities may change due to changes in market conditions, changes in estimates, changes in tax laws or other factors. If assumptions and estimates change in the future, the deferred tax assets and liability will be adjusted accordingly and any increase or decrease will result in an additional deferred income tax expense or benefit in subsequent periods.

Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared in accordance with generally accepted accounting principles in the United States ("GAAP"), we use certain non-GAAP financial measures, adjusted net income and adjusted net income per share, diluted. We provide these non-GAAP financial measures because we believe they provide greater transparency related to our core operations and represent supplemental information used by management in its financial and operational decision making. We exclude (or include) certain items in our non-GAAP financial measures as we believe the net result is a measure of our core business. We believe this facilitates operating performance comparisons from period to period by eliminating potential differences caused by the existence and timing of certain income and expense items that would not otherwise be apparent on a GAAP basis. Non-GAAP performance measures should be considered in addition to, and not as a substitute for, results prepared in accordance with GAAP. The non-GAAP financial measures disclosed below should be read in conjunction with the remainder of this Quarterly Report on Form 10-Q, including the consolidated financial statements and footnotes thereto. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Our non-GAAP financial measures may be different from those reported by other companies. See the table below for reconciliations of adjusted net income to the most directly comparable GAAP measure, which is GAAP net income, and the computation of adjusted net income per share, diluted.

| (in thousands, except per share amounts) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | December 28, 2024 | December 30, 2023 | December 28, 2024 | December 30, 2023 |
| GAAP net income (loss) | \$ (4,914) | \$ 1,084 | \$ (3,790) | \$ 1,419 |
| Gain on insurance proceeds (net of losses) | — | — | — | (431) |
| Stock-based compensation expense | 16 | 53 | 83 | 112 |
| Write-off of unamortized loan fees | 1,012 | — | 1,012 | — |
| Income tax effect of non-GAAP adjustments (1) | (206) | (11) | (219) | 64 |
| Adjusted net income (loss): | \$ (4,092) | \$ 1,126 | \$ (2,914) | \$ 1,164 |
| Adjusted net income (loss) per share — non-GAAP Diluted | \$ (0.38) | \$ 0.10 | \$ (0.27) | \$ 0.11 |
| Weighted average shares outstanding — Diluted | 10,762 | 10,889 | 10,762 | 10,889 |

(1) Income tax effects are calculated using an effective tax rate of 20%, which approximates the effective statutory tax rate for the presented periods.

BACKLOG

On December 28, 2024, we had an order backlog of approximately \$162.5 million. This compares with a backlog of approximately \$264.1 million on December 30, 2023. The decrease in order backlog is related to softening of demand for a number of our Mexico-based programs, partially offset by an increase in demand for our U.S. based facilities. We expect backlog to increase in the coming periods due to recent sizeable program wins. Order backlog consists of purchase orders received for products expected to be shipped within the next 12 months, although shipment dates are subject to change due to design modifications or changes in other customer requirements. Order backlog should not be considered an accurate measure of future net sales.

CAPITAL RESOURCES AND LIQUIDITY

Operating Cash Flow

Net cash provided by operating activities for the six months ended December 28, 2024 was \$11.5 million. Net cash provided by operating activities was \$9.1 million for the six months ended December 30, 2023.

The \$11.5 million of net cash provided by operating activities for the six months ended December 28, 2024 was primarily related to \$3.8 million in net loss for the period adjusted for \$5.5 million of depreciation and amortization, a \$4.4 million decrease in inventory, a \$19.4 million decrease in accounts receivable, a \$2.4 million decrease in contract assets and a \$1.7 million increase in other liabilities partially offset by a \$15.8 million decrease in accounts payable a \$3.9 million increase in other assets, and a \$0.3 million decrease in accrued compensation and vacation.

The \$9.1 million of net cash provided by operating activities for the six months ended December 30, 2023 was primarily related to \$1.4 million in net income for the period adjusted for \$5.5 million of depreciation and amortization, a \$13.8 million decrease in inventory, a \$15.7 million decrease in accounts receivable, a \$2.2 million decrease in contract assets, a \$0.5 million increase in other liabilities, and a \$0.4 million decrease in other assets, partially offset by a \$24.5 million decrease in accounts payable, and a \$3.8 million decrease in accrued compensation and vacation.

Accounts receivable fluctuates based on the timing of shipments, terms offered, and collections that occurred during the quarter. While overall net sales are not typically seasonal in nature, we ship the majority of our product during the latter half of the quarter. We purchase inventory based on customer forecasts and orders, and when those forecasts and orders change, the amount of inventory may also fluctuate. Accounts payable fluctuates with changes in inventory levels, volume of inventory purchases, negotiated supplier terms and taking advantage of early pay discounts.

Investing Cash Flow

Cash used in investing activities was \$0.8 million during the six months ended December 28, 2024 as compared to cash used in investing activities of \$0.4 million during the six months ended December 30, 2023. Our primary investing activities during the six months ended December 28, 2024 and December 30, 2023, related to purchasing equipment to support increased production levels for new programs.

Leases are often utilized when potential technical obsolescence and funding requirement advantages outweigh the benefits of equipment ownership. Total capital expenditures are expected to be approximately \$8-\$10 million during the fiscal year, some of which may be funded through finance leases. Capital expenditures and periodic lease payments are expected to be financed with internally generated funds as well as our revolving line of credit facility and equipment term loans.

Financing Cash Flow

Cash used in financing activities was \$11.2 million during the six months ended December 28, 2024 as compared to \$9.4 million used in financing activities in the same period of the previous fiscal year. Our primary financing activities during the six months ended December 28, 2024, and December 30, 2023, were borrowings and repayments under our asset-based revolving line of credit facility with Bank of Montreal, our Prior Credit Facility with Bank of America, and term loans.

Our cash requirements are affected by the level of current operations and new programs. If we are unable to meet projected operating results, we may need to delay the purchase of raw materials or require our customers to fund inventory raw material costs ahead of production. The Company further notes projected cash from operations from increased demand from certain customers will be partially offset by an anticipated slowdown in collections from other customers and increasing inventory levels in efforts to mitigate supply chain constraint risks. Other options to increase our liquidity include factoring receivables or leveraging foreign owned assets for additional borrowing capacity. As discussed in Note 4 – “Long Term Debt” of the Notes to the Consolidated Financial Statements, on December 3, 2024, we entered into an asset-based credit agreement with BMO Bank, N.A that provides for an asset-based senior secured revolving credit facility (the “Credit Facility”) of up to \$115 million, maturing on December 3, 2029. We also entered into a \$28 million term loan (the “Term Loan”) credit agreement with Callodine Commercial Finance, LLC.

We believe that projected cash from operations, funds available under the Credit Facility, Term Loan, Banorte line of credit, and leasing capabilities will be sufficient to meet our working and fixed capital requirements for at least the next 12 months.

As of December 28, 2024, we had approximately \$3.4 million of cash held by foreign subsidiaries. If cash is to be repatriated in the future from these foreign subsidiaries, the Company would be subject to certain withholding taxes in the foreign jurisdictions. The total amount of tax payments required for the amount of foreign subsidiary cash on hand as of December 28, 2024 would approximate \$26,000. We have accrued withholding taxes for expected future repatriation of foreign earnings as discussed in Note 5 of the “Notes to Consolidated Financial Statements.”

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We have included a summary of our Contractual Obligations in our annual report on Form 10-K for the fiscal year ended June 29, 2024. There have been no material changes in contractual obligations outside the ordinary course of business since June 29, 2024 except as it relates to the refinancing of our line of credit with a new lender, which now matures on December 3, 2029. See Note 4 - “Long-Term Debt” of the Notes to Consolidated Financial Statements for additional information.

RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

The following risks and uncertainties could affect our actual results and could cause results to differ materially from past results or those contemplated by our forward-looking statements. When used herein, the words "expects," "believes," "anticipates" and other similar expressions are intended to identify forward-looking statements.

RISKS RELATED TO OUR BUSINESS AND STRATEGY

Our operations may be subject to certain risks.

We manufacture product in facilities located in Mexico, China, Vietnam, and the United States. These operations may be subject to a number of risks, including:

- difficulties in staffing, turnover, and managing onshore and offshore operations;
- political and economic instability (including acts of terrorism, pandemics, civil unrest, forms of violence and outbreaks of war), which could impact our ability to ship, manufacture, and/or receive product;
- unexpected changes in regulatory requirements and laws, including those related to climate change;
- longer customer payment cycles and difficulty collecting accounts receivable;
- cash liquidity, the ability to acquire new debt capacity, and capital constraints;
- export duties, import controls and trade barriers (including quotas);
- governmental restrictions on the transfer of funds;
- burdens of complying with a wide variety of foreign laws and labor practices; subject to trade wars and tariffs;
- our locations are subject to physical and operational risks from natural disasters, severe weather events, and climate change
- our locations may also be impacted by future temporary closures and labor constraints as a result of local mandates for medical, climate, and unforeseen emergencies; and
- our locations may be impacted by future temporary closure related to cyberattacks.
- impact of potential tariffs assessed on countries in which we may manufacture product or from which we may buy components

Our operations in certain foreign locations receive favorable income tax treatment in the form of tax credits or other incentives. In the event that such tax incentives are not extended, are repealed, or we no longer qualify for such programs, our taxes may increase, which would reduce our net income.

Additionally, certain foreign jurisdictions restrict the amount of cash that can be transferred to the U.S. or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our operations in the United States, we may incur significant penalties and/or taxes to repatriate these funds.

We may experience fluctuations in quarterly results of operations.

Our quarterly operating results have varied in the past and may vary in the future due to a variety of factors, including adverse changes in the U.S. and global macroeconomic environment, volatility in overall demand for our customers' products, success of customers' programs, timing of new programs, new product introductions or technological advances by us, our customers and our competitors, and changes in pricing policies by us, our customers, our suppliers, and our competitors. Our customer base is diverse in the markets they serve, however, decreases in demand, particularly from customers in certain industries could affect future quarterly results. Additionally, our customers could be adversely impacted by illiquidity in the credit markets which could directly impact our operating results.

Component procurement, production schedules, personnel and other resource requirements are based on estimates of customer requirements. Occasionally, our customers may request accelerated production that can stress resources and reduce operating margins. Conversely, our customers may abruptly lower or cancel production which may lead to a sudden, unexpected increase in inventory or accounts receivable for which we may not be reimbursed even when under contract with customers. In addition, because many of our operating expenses are relatively fixed, a reduction in customer demand can harm our gross profit and operating results. The products which we manufacture for our customers have relatively short product lifecycles. Therefore, our business, operating results and financial condition are dependent in a significant way on our ability to obtain orders from new customers and new product programs from existing customers.

Operating results can also fluctuate if changes are made to significant estimates and assumptions. Significant estimates and assumptions include the allowance for credit losses, provision for inactive, obsolete, and surplus inventory, stock-based compensation, the valuation allowance on deferred tax assets, impairment of long-lived assets, long-term incentive compensation accrual, the provision for warranty costs, and the impact of hedging activities.

During the COVID-19 pandemic, we saw extreme shifts in demand from our customer base. The possibility of future temporary closures and labor constraints, as well as the inability to predict customer demand, costs, and future supply chain disruptions during pandemics can materially impact operating results.

We are exposed to general economic conditions, which could have a material adverse impact on our business, operating results and financial condition.

Adverse economic conditions and uncertainty in the global economy such as unstable global financial and credit markets, inflation, and recession can negatively impact our business. Unfavorable economic conditions could affect the demand for our customers' products by triggering a reduction in orders as well as a decline in forecasts which could adversely affect our sales in future periods. Additionally, the financial strength of our customers and suppliers and their ability to obtain and rely on credit financing may affect their ability to fulfill their obligations to us and have an adverse effect on our financial results.

Adverse macroeconomic conditions, such as those that were a result of COVID-19, have and may continue to affect our business. The conditions affect the Company's ability to predict and plan for future supply chain disruptions, fluctuations in customer demand and costs, and the ability to operate as there is uncertainty over future temporary closures. Inflation has also risen globally to historically high levels. As the inflation rate continues to increase, the costs of labor and other expenses have and may continue to increase. We may not be able to increase our product prices enough to offset these increased costs. In addition, any increase in our product prices may reduce our future customer orders and profitability. Inflation may further exacerbate other risk factors discussed in this Quarterly Report on Form 10-Q, including disruptions to international operations.

The majority of our sales come from a small number of customers, and a decline in sales to any of these customers could adversely affect our business.

At present, our customer base is concentrated and could become more or less concentrated. There can be no assurance that our principal customers will continue to purchase products from us at current levels. Moreover, we typically do not enter into long-term volume purchase contracts with our customers, and our customers have certain rights to extend or delay the shipment of their orders. We, however, typically require that our customers contractually agree to buy back inventory purchased within specified lead times to build their products if not used.

The loss of one or more of our principal customers, or the reduction, delay or cancellation of orders from such customers, due to economic conditions or other forces, could materially and adversely affect our business, operating results and financial condition. The contraction in demand from certain industries could impact our customer orders and have a negative impact on our operations over the foreseeable future.

Our inability to enforce contracts with, or the bankruptcy or insolvency of, any of our principal customers could adversely affect our business.

We rely on timely and regular payments from our customers, and the inability or failure of our principal customers to meet their obligations to us or their bankruptcy, insolvency or liquidation may adversely affect our business, financial condition and results of operations. Financial difficulties experienced by one or more of our customers could negatively affect our business by decreasing demand from such customers and through the potential inability of these companies to make full payment on amounts owed to us. Customer bankruptcies also entail the risk of potential recovery by the bankruptcy estate of amounts previously paid to us that are deemed a preference under bankruptcy laws. There can be no assurance that customers will not declare bankruptcy or suffer financial distress, in which case our future revenues, net income and cash flow could be reduced.

In addition, we structure our agreements with customers to mitigate our risks related to obsolete, aged, or unsold inventory. However, enforcement of these contracts may result in material expense and delay in payment for inventory. If any of our significant customers become unable or unwilling to purchase such inventory, our business may be materially harmed.

We depend on a limited number of suppliers for certain components that are critical to our manufacturing processes. A shortage of these components or an increase in their price could interrupt our operations and result in a significant change in our results of operations.

We are dependent on many suppliers, including sole source suppliers, to provide key components and raw materials used in manufacturing customers' products. We have seen supply shortages in certain electronic components. In addition, our suppliers' facilities may also experience closures or limited production due to natural disasters or other reasons, which may cause a shortage of components. This can result in longer lead times and the inability to meet our customers' requests for flexible production and extended shipment dates. If demand for components outpaces supply, capacity delays could affect future operations. Delays in deliveries from suppliers or the inability to obtain sufficient quantities of components and raw materials

have and may continue to cause delays or reductions in shipment of products to our customers which could adversely affect our operating results and damage customer relationships.

We operate in a highly competitive industry; if we are not able to compete effectively in the contract manufacturing industry, our business could be adversely affected.

Competitors may offer customers lower prices on certain high volume programs. This could result in price reductions, reduced margins and loss of market share, all of which would materially and adversely affect our business, operating results, and financial condition. If we were unable to provide comparable or better manufacturing services at a lower cost than our competitors, it could cause sales to decline. In addition, competitors can copy our non-proprietary designs and processes after we have invested in development of products for customers, thereby enabling such competitors to offer lower prices on such products due to savings in development costs.

Fluctuations in foreign currency exchange rates have increased and could continue to increase our operating costs.

We have manufacturing operations located in Mexico and China. A significant portion of our operations are denominated in the Mexican Peso and the Chinese currency, the renminbi ("RMB"). Currency exchange rates fluctuate daily as a result of a number of factors, including changes in a country's political and economic policies. Volatility in the currencies of our entities and the United States dollar, as well as inflationary costs, could seriously harm our business, operating results and financial condition. The primary impact of currency exchange fluctuations is on the cash, receivables, payables and expenses of our operating entities. As part of our hedging strategy, we currently use Mexican Peso forward contracts to hedge future foreign currency fluctuations for a portion of our Mexican Peso denominated expenses. We currently do not hedge expenses denominated in RMB and have occasionally also been unable to hedge expenses denominated in Mexican Peso. Losses have occurred from increases in the value of these currencies relative to the United States dollar and further losses could occur, which could be material to our business, financial results or operations.

Global economic and political events or significant currency exchange fluctuations, can occur, and cause further unexpected losses. Future temporary closures of production facilities in Mexico could also cause significant changes in our ability to qualify for hedge accounting treatment of our forward contracts to hedge foreign currency fluctuations.

Our success will continue to depend to a significant extent on our key personnel and our ability to execute our management succession plans.

Our future success depends in large part on the continued service of our key technical, marketing and management personnel and on our ability to continue to attract and retain qualified production employees. There can be no assurance that we will be successful in attracting and retaining such personnel, particularly in our manufacturing locales that may be experiencing high demand for similar key personnel. The loss of key employees could have a material adverse effect on our business, operating results and financial condition.

In addition, we must successfully manage transition issues that may result from the departure or retirement of members of our leadership team. For example, our Chief Executive Officer retired at the end of fiscal year 2024 and is succeeded by our former Chief Financial Officer. Any significant leadership change or senior management transition involves inherent risks and failure to ensure a smooth transition could hinder our strategic planning, business execution, and future performance. We cannot provide assurances that any changes of management personnel will not cause disruption to operations or customer relationships or a decline in our operating results.

Start-up costs and inefficiencies related to new or transferred programs can adversely affect our operating results and such costs may not be recoverable if such new programs or transferred programs are canceled or don't meet expected sales volumes.

Start-up costs, the management of labor and equipment resources in connection with the establishment of new programs and new customer relationships, and the need to obtain required resources in advance can adversely affect our gross margins and operating results. These factors are particularly evident in the ramping stages of new programs. These factors also affect our ability to efficiently use labor and equipment. We continuously manage a number of new programs. Consequently, our exposure to these factors is consistently elevated. In addition, if any of these new programs or new customer relationships were terminated, our operating results could be harmed, particularly in the short term. We may not be able to recoup these start-up costs or replace anticipated new program revenues.

Customers may change production timing and demand schedules which makes it difficult for us to schedule production and capital expenditures and to maximize the efficiency of our manufacturing capacity.

Changes in demand for customer products reduce our ability to accurately estimate the future requirements of our customers. This makes it difficult to schedule production and maximize utilization of our manufacturing capacity. We must determine the levels of business that we will seek and accept from customers, set production schedules, commit to procuring inventory, and allocate personnel and resources, based on our estimates of our customers' requirements. Customers can require sudden

increases and decreases in production which can put added stress on resources and reduce margins. Sudden decreases in production can lead to excess inventory on hand which may or may not be reimbursed by our customers even when under contract.

Continued growth could further lead to capacity constraints. We may need to transfer production to other facilities, acquire new facilities, or outsource production which could negatively impact gross margin.

Compliance or the failure to comply with current and future environmental and health laws or regulations could cause us significant expense.

We are subject to a variety of domestic and foreign environmental regulations relating to the use, storage, and disposal of materials used in our manufacturing processes. In addition, increasing governmental focus on climate change may result in new environmental regulations that may negatively affect us, our vendors or our customers. As a result, we may incur additional costs or obligations in complying with any new environmental and reporting requirements, as well as increased indirect costs resulting from our vendors or suppliers that get passed on to us.

If we fail to comply with any present or future regulations, we could be subject to future liabilities or the suspension of current manufacturing operations. In addition, such regulations could restrict our ability to expand our operations or could require us to acquire costly equipment, substitute materials, or incur other significant expenses to comply with government regulations.

If our manufacturing processes and services do not comply with applicable statutory and regulatory requirements, or if we manufacture products containing design or manufacturing defects, demand for our services may decline and we may be subject to liability claims.

We manufacture and design products to our customers' specifications, and, in some cases, our manufacturing processes and facilities may need to comply with applicable statutory and regulatory requirements. For example, medical devices that we manufacture or design, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the Food and Drug Administration and non-U.S. counterparts of this agency. In addition, our customers' products and the manufacturing processes that we use to produce them often are highly complex. As a result, products that we manufacture may at times contain manufacturing or design defects, and our manufacturing processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers or reduced or canceled customer orders. If these defects or deficiencies are significant, our business reputation may also be damaged. The failure of the products that we manufacture or our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a manufacturing process or facility. Our customers are required to indemnify us against liability associated with designing products to meet their specifications. However, if our customers are responsible for the defects, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims.

If we do not manage our growth effectively, our profitability could decline.

When our business is experiencing growth, such growth can place considerable additional demands upon our management team and our operational, financial and management information systems. Our ability to manage growth effectively requires us to continue to implement and improve these systems; avoid cost overruns; maintain customer, supplier and other favorable business relationships during possible transition periods; continue to develop the management skills of our managers and supervisors; and continue to train, motivate and manage our employees. Our failure to effectively manage growth could have a material adverse effect on our results of operations.

Energy price increases may negatively impact our results of operations.

Certain components that we use in our manufacturing process are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources in our transportation activities. While significant uncertainty currently exists about the future levels of energy prices, a significant increase, such as the increased fuel prices experienced in fiscal year 2022, is possible. Increased energy prices could cause an increase to our raw material costs and transportation costs. In addition, increased transportation costs related to certain suppliers and customers could be passed along to us. We may not be able to increase our product prices enough to offset these increased costs. In addition, any increase in our product prices may reduce our future customer orders and profitability.

Current and future U.S. trade policy could increase the cost of manufacturing services for our customers, leading them to reduce their orders to us.

Although we maintain significant manufacturing capacity in the U.S., the majority of our manufacturing operations are located outside the U.S. (in countries such as China and Mexico). In the past, the U.S. has imposed tariffs impacting certain components and products imported from these countries by us into the U.S. These tariffs apply to both components imported into the U.S. from these countries for use in the manufacture of products at our U.S. plants and to certain of our customers' products that we manufacture for them in these countries and that are then imported into the U.S.

The current U.S. presidential administration has indicated that a broad increase in tariffs on imported components is possible, and in some cases has been put into effect, which could drive up our prices to customers. Any decision by a large number of our customers to cease using our manufacturing services due to the application of tariffs could materially reduce our revenue and net income.

TECHNOLOGY RISKS

Our operations are subject to cyberattacks that have had and could have a material adverse effect on our business.

We are increasingly dependent on digital technologies and services to conduct our operations. We use these technologies for internal purposes, including data storage, processing and transmissions, as well as in our interactions with vendors and customers. Digital technologies and services are subject to the risk of cybersecurity incidents and some incidents can remain undetected for a period of time.

We routinely monitor our systems for cyber threats and believe we have sufficient processes in place to detect and remediate vulnerabilities. Nevertheless, we have experienced attempted security breaches, such as phishing emails and other targeted attacks. For example, as previously disclosed in our Form 8-K filed with the Securities and Exchange Commission (the "SEC") on May 10, 2024, as amended, we became aware of unauthorized access to our IT systems that resulted in a material impact on our financial condition and results of operations during the fourth quarter of fiscal year 2024 ending on June 29, 2024 (the "Previously Disclosed Cyber Incident"). We expect that our operations will continue to be subject to cyber threats, and any future cybersecurity incident could significantly disrupt our operations.

The threat actor in the Previously Disclosed Cyber Incident exfiltrated certain personally identifiable information, and future cybersecurity incidents could also result in the misappropriation of proprietary or confidential information of the Company or that of its customers, employees, vendors or suppliers. We have incurred and expect to continue to incur costs to mitigate against the Previously Disclosed Cyber Incident and other cybersecurity incidents as threats are expected to continue to become more persistent and sophisticated. If our systems for protecting against cybersecurity incidents, including the Previously Disclosed Cyber Incident, prove not to be sufficient, we could be adversely affected by, among other things, loss of or damage to intellectual property, proprietary or confidential information, or employee, vendor or customer data; interruption of our business operations; and increased costs to prevent, respond to or mitigate cybersecurity incidents. In addition, our investigation of the Previously Disclosed Cyber Incident is ongoing, and we may discover other impacts or new events related to this incident that could affect the Company, including our business, financial condition or results of operations. Any of these risks could harm our reputation and our relationships with employees, vendors and customers and may result in claims or enforcement actions and investigations against us.

Disruptions to our information systems, including losses of data or outages, could adversely affect our operations.

We rely on information technology networks and systems to process, transmit and store electronic information. In particular, we depend on our information technology infrastructure for a variety of functions, including worldwide financial reporting, inventory management, procurement, invoicing and email communications. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. If we or our vendors are unable to prevent such outages, our operations could be disrupted.

If we are unable to maintain our technological and manufacturing process expertise, our business could be adversely affected.

The markets for our customers' products are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and short product life cycles. The introduction of products embodying new technologies or the emergence of new industry standards can render existing products obsolete or unmarketable. Our success will depend upon our customers' ability to enhance existing products and to develop and introduce, on a timely and cost-effective basis, new products that keep pace with technological developments and emerging industry standards and address evolving and increasingly sophisticated customer requirements. Failure of our customers to do so could substantially harm our customers' competitive positions. There can be no assurance that our customers will be successful in identifying, developing and marketing products that respond to technological change, emerging industry standards or evolving customer requirements.

RISKS RELATED TO CAPITAL AND FINANCING

Our failure to comply with the covenants in our credit arrangements could materially and adversely affect our financial condition.

We have restrictive covenants with our financial institutions that impact how we manage our business. We have not always met these covenants in the past and have had to obtain waivers and amend the Loan Agreement under our Prior Credit Facility, including for events of default related to breaches of the fixed charge coverage ratio for fiscal quarter ended March 30, 2024 and the periods ended June 29, 2024 and July 27, 2024. We also breached a covenant in the Loan Agreement under our Prior Credit Facility requiring us to deliver audited financial statements to the lender within 90 days of the Company's fiscal year-end, which required us to further amend the Loan Agreement on October 9, 2024.

Our new asset-based senior secured revolving credit facility (the "Credit Facility"), which replaced the Prior Credit Facility also includes minimum earnings before interest, taxes, depreciation, amortization and other adjustments, minimum availability and, if triggered, a minimum fixed charge coverage ratio, and other covenants. We may not meet such covenants in the future and may not be able to obtain waivers or amendments from the relevant lenders on terms acceptable to us, or at all. In the event we breach any covenant that results in an event of default, we may be required to amend the credit facility on terms that would be less favorable to us, such as an increase in the interest rate. Similarly, our lenders could choose to accelerate payment of the amounts owed by the Company. Under those circumstances our borrowings could become immediately payable. The amendment of our credit arrangements on unfavorable terms or the acceleration of our payment obligations thereunder, would have a material adverse effect on our business, financial condition, results of operations and cash flows. For a summary of our debt obligations, see Note 4 - "Long-Term Debt" of the Notes to Consolidated Financial Statements.

Our ability to secure and maintain sufficient credit arrangements is key to our continued operations.

There is no assurance that we will be able to retain, renew, or refinance our credit arrangements in the future.

In the event that our business grows rapidly or there is uncertainty in the macroeconomic climate, additional financing resources could be necessary in the current or future fiscal years. There is no assurance that we will be able to obtain equity or debt financing at acceptable terms, or at all, in the future. For a summary of our debt obligations, see Note 4 - "Long-Term Debt" of the Notes to Consolidated Financial Statements.

Adverse changes in the interest rates of our borrowings could adversely affect our financial condition.

We are exposed to interest rate risk under our revolving line of credit and term loans. We have not historically hedged the interest rate on our credit facility; therefore, unless we do so, significant changes in interest rates could adversely affect our results of operations. For a summary of our debt obligations, see Note 4 - "Long-Term Debt" of the Notes to Consolidated Financial Statements.

Cash and cash equivalents are exposed to concentrations of credit risk.

We place our cash with high credit quality institutions. At times, such balances may be in excess of the federal depository insurance limit or may be on deposit at institutions which are not covered by insurance. If such institutions were to become insolvent during which time it held our cash and cash equivalents in excess of the insurance limit, it could be necessary to obtain other credit financing to operate our facilities.

Our stock price is volatile.

Our stock price has and may continue to be subject to wide fluctuations and possible rapid increases or declines over a short time period. These fluctuations may be due to factors specific to us such as our stock's thinly traded nature, variations in quarterly operating results, changes in earnings estimates, matters arising from the subject matter of the Audit Committee's internal investigation, or to factors relating to the contract manufacturing industry or to the securities markets in general, which, in recent years, have experienced significant price fluctuations. These fluctuations often have been unrelated to the operating performance of the specific companies whose stocks are traded. In addition, holders of our common stock will suffer immediate dilution to the extent outstanding equity awards are exercised to purchase common stock.

RISKS RELATED TO OUR CONTROLS AND PROCEDURES AND THE INTERNAL INVESTIGATION

We have concluded that our internal control over financial reporting and our disclosure controls and procedures were not effective as of June 29, 2024 due to material weaknesses, which has adversely affected our ability to report our financial results in a timely and accurate manner and could have a material adverse impact on our business and financial condition.

We are required to evaluate the effectiveness of our disclosure controls and procedures and our internal control over financial reporting on a periodic basis and publicly disclose the results of these evaluations and related matters in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). As described in Item 9A. Controls and Procedures of our Annual Report on Form 10-K, we identified a material weakness in the design and implementation of effective controls over the accounting for revenue recognition relating to cost recovery of material price variances. We also identified a material weakness in the design and implementation of effective controls over the adoption of new accounting standards. As a result of these material weaknesses, our management concluded that our internal control over financial reporting and disclosure controls and procedures were not effective as of June 29, 2024.

We are implementing the remediation plan, as described in Item 9A. Controls and Procedures of our Annual Report on Form 10-K, designed to address the material weaknesses, but our remediation efforts are not complete and are ongoing. Although we are working to remedy the ineffectiveness of the Company’s internal control over financial reporting, there can be no assurance as to when the remediation plan will be fully developed, when it will be fully implemented or the aggregate cost of implementation. Until our remediation plan is fully implemented, our management will continue to devote time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future consolidated financial statements could contain errors that will be undetected. If we are unable to report our results in a timely and accurate manner, our stock may be delisted from the NASDAQ Global Market and we will not be able to comply with the applicable covenants in our financing arrangements, including our Loan Agreement, as described in —Risks Related to Capital and Financing—“Our failure to comply with the covenants in our credit arrangements could materially and adversely affect our financial condition.” In addition, we could be subject to regulatory investigations and penalties or stockholder litigation. Any of these risks could have a material adverse impact on our business and financial condition.

If we fail to remediate our material weaknesses, or in the future fail to maintain proper and effective internal controls, our business and financial condition could be materially adversely impacted.

We cannot assure you that we will not discover additional deficiencies in our internal control over financial reporting. Moreover, as discussed in the following risk factor, because of the inherent limitations of any control system, material misstatements due to error or fraud may not be prevented or detected on a timely basis, or at all. As of June 29, 2024, we are a non-accelerated filer under the Exchange Act and are not required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act. Therefore, our internal controls over financial reporting will not receive the level of review provided by the process relating to the auditor attestation included in annual reports of issuers that are subject to the auditor attestation requirements.

Further and continued determinations that there are deficiencies in the effectiveness of the Company’s internal control over financial reporting could result in another restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing, negatively affect investor confidence in our management and the accuracy of our financial statements and disclosures, or result in adverse publicity and concerns from investors, any of which could have a negative effect on the price of our common stock, subject us to regulatory investigations and penalties or stockholder litigation, and materially adversely impact our business, financial condition, results of operations and cash flows.

Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors, theft and fraud, or in informing management of all material information in a timely manner.

Management does not expect that our disclosure controls and procedures and internal controls over financial reporting will prevent all errors or fraud. A control system is designed to give reasonable, but not absolute, assurance that the objectives of the control system are met. In addition, any control system reflects resource constraints and the benefits of controls must be considered relative to their costs. Inherent limitations of a control system may include: judgments in decision making may be faulty, breakdowns can occur simply because of error or mistake and controls can be circumvented by collusion or management override. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Matters relating to or arising from the subject of the Audit Committee’s internal investigation, including expenses and diversion of personnel and resources, regulatory investigations, and proceedings and litigation matters, could have an adverse effect on our business, results of operations and financial condition.

We have incurred, and may continue to incur, significant expenses related to legal, accounting and other professional services in connection with matters relating to or arising from the subject of the Audit Committee's internal investigation in fiscal year 2022. To the extent these steps taken to remediate identified deficiencies in our internal controls over financial reporting were not successful, we may incur significant additional time and expense.

In addition, we continue to cooperate with the SEC regarding matters related to the internal investigation. The completion of the internal investigation in fiscal year 2022 did not automatically resolve the SEC's inquiries. If the SEC or any other regulator were to commence legal action against us, we could be required to pay significant penalties and become subject to injunctions, cease and desist orders or other remedies. We can provide no assurances as to the outcome of any governmental inquiry or investigation. Further, we, our officers and members of our Board of Directors could be named as defendants in lawsuits asserting claims arising out of the subject matter of the Audit Committee's internal investigation. As a result of any legal proceedings and any related indemnification requirements to our officers and directors, we could be required to pay monetary damages that may be in excess of our insurance coverage or may have additional penalties or other remedies imposed against us or our officers and directors.

All of these expenses, and the diversion of the attention of management and other personnel that has occurred and is expected to continue, could adversely affect our business, financial condition, results of operations and cash flows.

LEGAL AND ACCOUNTING RISKS

We restated certain of our prior consolidated financial statements in our Annual Report on Form 10-K, which resulted in unanticipated costs and may lead to additional risks and uncertainties, including loss of investor confidence, regulatory action or litigation.

As previously disclosed, in our Annual Report on Form 10-K, we have restated or revised certain of our previously issued financial statements. This process was time-consuming and expensive, including unanticipated costs for accounting and legal fees. The restatement and revisions also expose us to additional risks that could adversely affect our business and financial condition, such as litigation, regulatory action or loss of investor confidence. Lawsuits or regulatory investigations may invoke federal and state securities law claims, contractual claims or other claims arising from the restatement, revisions and material weaknesses in our internal control over financial reporting. We may incur substantial defense costs regardless of the outcome of any litigation or regulatory investigation, and such events might cause a diversion of our management's time and attention. If we do not prevail in any litigation or regulatory action, we could be required to pay substantial damages, penalties or settlement costs. In addition, the restatement and revisions may lead to a loss of investor confidence and have negative impacts on the trading price of our common stock.

We are involved in various legal proceedings.

In the past, we have been notified of claims relating to various matters including contractual matters, intellectual property rights or other issues arising in the ordinary course of business. In the event of such a claim, we may be required to spend a significant amount of money to defend or otherwise address the claim. Any litigation or dispute resolution, even where a claim is without merit, could result in substantial costs and diversion of resources. Accordingly, the resolution or adjudication of such disputes, even those encountered in the ordinary course of business, could have a material effect on our business, consolidated financial conditions and results of operations.

Changes in securities laws and regulations will increase our costs and risk of noncompliance.

We are subject to additional requirements contained in the U.S. federal securities laws, including the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Sarbanes-Oxley and Dodd-Frank Acts required or will require changes in some of our corporate governance, securities disclosure and compliance practices. The SEC and NASDAQ Global Market have promulgated new rules over time, resulting in increased legal, financial and accounting costs as well as a potential risk of noncompliance. Absent significant changes in related rules, which we cannot assure, we anticipate some level of increased costs related to these new regulations to continue indefinitely. We also expect these developments to make it more difficult and more expensive to obtain director and officer liability insurance, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our Board of Directors or qualified management personnel. Further, the costs associated with the compliance with and implementation of procedures under these and future laws and related rules could have a material impact on our results of operations. In addition, the costs associated with noncompliance with additional securities laws and regulations could also impact our business.

Changes in financial accounting standards may affect our reported financial condition or results of operations as well as increase costs related to implementation of new standards and modifications to internal controls.

Our consolidated financial statements are prepared in conformity with accounting standards generally accepted in the United States, or U.S. GAAP. These principles are subject to amendments made primarily by the Financial Accounting Standards Board (FASB) and the SEC. A change in those policies can have a significant effect on our reported results and may affect our

reporting of transactions which are completed before a change is announced. Changes to accounting rules or challenges to our interpretation or application of the rules by regulators may have a material adverse effect on our reported financial results or on the way we conduct business.

GENERAL RISKS

Our levels of insurance coverage may not be sufficient for potential damages, claims or losses.

We have various forms of business and liability insurance which we believe are appropriate based on the needs of companies in our industry. As a result, not all of our potential business risks or potential losses would be covered by our insurance policies. If we sustain a significant claim or loss which is not covered by insurance, our net income could be negatively impacted.

We may encounter complications with acquisitions, which could potentially harm our business.

Any current or future acquisitions may require additional equity financing, which could be dilutive to our existing shareholders, or additional debt financing, which could potentially affect our credit ratings. Any downgrades in our credit ratings associated with an acquisition could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. The integration of acquired businesses may be further complicated by difficulties managing operations in geographically dispersed locations. The integration of acquired businesses may not be successful and could result in disruption by diverting management's attention from the core business. In addition, the integration of acquired businesses may require that we incur significant restructuring charges or other increases in our expenses and working capital requirements, which reduce our return on invested capital.

Acquisitions may involve numerous other risks and challenges including but not limited to: potential loss of key employees and customers of the acquired companies; the potential for deficiencies in internal controls at acquired companies; lack of experience operating in the geographic market or industry sector of the acquired business; constraints on available liquidity, and exposure to unanticipated liabilities of acquired companies. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our consolidated business and operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are subject to the risk of fluctuating interest rates in the normal course of business. Our major market risk relates to our secured debt. Our asset-based senior secured revolving credit facility, line of credit facility, and equipment financing facility are secured by substantially all of our assets. The interest rates applicable to our asset-based senior secured revolving credit facility fluctuate with SOFR rates. The interest rates applicable to our asset-based secured line of credit facility fluctuate with Itercambaria de Equilibrio Interest Rate. There was outstanding \$75.6 million in borrowings under our asset-based senior secured revolving credit facility, MXN83.6 million outstanding in borrowing under our asset-based secured line of credit facility, and \$5.7 million outstanding on our equipment financing facilities as of December 28, 2024.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity" and Note 4 – "Long-Term Debt" to the Consolidated Financial Statements for additional information regarding our revolving credit facility and term loans.

Foreign Currency Exchange Risk

A significant portion of our operations are in foreign locations. As a result, transactions occur in currencies other than the U.S. dollar. Exchange rate fluctuations among other currencies used by us would directly or indirectly affect our financial results. From time to time, we use Mexican Peso forward contracts to hedge foreign currency fluctuations for a portion of our Mexican Peso denominated expenses. There were \$28.96 million of foreign currency forward contracts outstanding as of December 28, 2024. See Note 9 - "Derivative Financial Instruments" to the Notes to Consolidated Financial Statements for additional information regarding our derivative instruments.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

It is the responsibility of our management to establish, maintain, and monitor disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Additionally, these disclosure controls include controls and procedures that are designed to accumulate and communicate the information required to be disclosed to our Chief Executive Officer and Chief Financial Officer, allowing for timely decisions regarding required disclosures.

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b).

Based on their evaluation as of December 28, 2024, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in control over financial reporting previously disclosed in Part II, Item 9A of our Annual Report on Form 10-K.

Notwithstanding the identified material weaknesses, management, including our Chief Executive Officer and Chief Financial Officer, believes the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with GAAP.

Remediation Update

In Part II, Item 9A of our Annual Report on Form 10-K, we identified steps management has taken, and is in the process of taking, to remediate the material weaknesses noted above. Those steps include;

- Training related to the proper accounting for material price variances
- Enhancing closing process documentation related to material price variances
- Hiring of technical accounting finance staff with US GAAP knowledge and experience; and
- Enhance closing process documentation related to adoption of new accounting standards

We have made progress towards designing and implementing the above steps. Specifically, we have educated those individuals responsible for recording and approving material price variances regarding the appropriate accounting treatment as revenue. We have added new required monitoring procedures to our month-end closing process aimed to timely detect any further errors related to accounting for material price variances. Further, we intend to hire an additional qualified accounting and financial reporting person with multiple years of US GAAP and Sarbanes-Oxley Act experience. Finally, we have designed a control related to the adoption of new accounting pronouncements and are in the process of implementing this control.

We will continue to review, revise, and improve the design and implementation of our internal controls as appropriate. Although we have made enhancements to our control procedures, the material weaknesses noted above are not yet remediated.

Changes in Internal Control over Financial Reporting

Except as disclosed above, and in Part II, Item 9A of our Annual Report on Form 10-K, there have been no significant changes in our internal controls over financial reporting during the three months ended December 28, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)).

PART II. OTHER INFORMATION:

Item 1. Legal Proceedings

We are a party to certain lawsuits or claims in the ordinary course of business. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flow, although an adverse resolution against the Company in a fiscal quarter or year could have a material adverse effect on the Company's results of operations in a particular quarter or year. For further details on claims, see Note 8. Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Item 1A. Risk Factors

Information regarding risk factors appear in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 3, "Quantitative and Qualitative Disclosures about Market Risk" of this Form 10-Q.

Item 5. Other Information

Insider Trading Arrangements

During the fiscal quarter ended December 28, 2024, none of the Company's directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement", as defined in Regulation S-K, Item 408.

| Item 6. | Exhibits |
|---------|---|
| | 3.1 Articles of Incorporation, incorporated by reference to the Company's Form 10-K for the fiscal year ended July 3, 2021 |
| | 3.2 Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on December 2, 2024 |
| | 10.1 Sixth Amendment to Loan, Guaranty and Security Agreement, dated October 9, 2024, among the Company, Bank of America, N.A. and certain other parties, incorporated by reference to the Company's Current Report on Form 8-K filed on October 10, 2024 |
| | 10.2 Credit Agreement, dated December 3, 2024 among the Company, BMO Bank, N.A. and certain other parties, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 5, 2024 |
| | 10.3 Term Loan Credit Agreement, dated December 3, 2024 among the Company, Callodine Commercial Finance, LLC and certain other parties incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 5, 2024. |
| | 31.1 Certification of Chief Executive Officer (Exchange Act Rules 13(a)-14 and 15(d)-14) |
| | 31.2 Certification of Chief Financial Officer (Exchange Act Rules 13(a)-14 and 15(d)-14) |
| | 32.1 Certification of Chief Executive Officer (18 U.S.C. 1350) |
| | 32.2 Certification of Chief Financial Officer (18 U.S.C. 1350) |
| 101.INS | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.INS, 101.SCH, 101.CAL, 101.DEF, 101.LAB and 101.PRE) |

SIGNATURES

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

KEY TRONIC CORPORATION

/s/ BRETT R. LARSEN

Brett R. Larsen

Date:

February 7, 2025

President and Chief Executive Officer
(Principal Executive Officer)

/s/ ANTHONY G. VOORHEES

Anthony G. Voorhees

Date:

February 7, 2025

**Executive Vice President of Administration, Chief Financial Officer and
Treasurer**
(Principal Financial Officer)

CERTIFICATION

I, Brett R. Larsen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Key Tronic Corporation;
2. Based on my knowledge, this quarterly report 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15(e) and 15d – 15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Dated: February 7, 2025

/s/ Brett R. Larsen

Brett R. Larsen

President and Chief Executive Officer

CERTIFICATION

I, Anthony G. Voorhees, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Key Tronic Corporation;
2. Based on my knowledge, this quarterly report 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15(e) and 15d – 15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Dated: February 7, 2025

/s/ Anthony G. Voorhees

Anthony G. Voorhees

Executive Vice President of Administration,
Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Key Tronic Corporation (the "Company") on Form 10-Q for the period ended December 28, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Brett R. Larsen, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 7, 2025

/s/ Brett R. Larsen

Brett R. Larsen

President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Key Tronic Corporation (the "Company") on Form 10-Q for the period ended December 28, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Anthony G. Voorhees, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 7, 2025

/s/ Anthony G. Voorhees

Anthony G. Voorhees

Executive Vice President of Administration,
Chief Financial Officer and Treasurer