

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 March 31, 2024

Or

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

For the transition period from _____ to _____

Commission File Number 000-09587

ELECTRO-SENSORS, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0943459

(IRS Employer Identification No.)

6111 Blue Circle Drive

Minnetonka, Minnesota 55343-9108

(Address of principal executive offices)

(952) 930-0100

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.10 par value	ELSE	Nasdaq Capital 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 for 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) during 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 ☒

The number of shares outstanding of the registrant's common stock, \$0.10 par value, on May 9, 2024 was 3,428,021.

ELECTRO-SENSORS, INC.
Form 10-Q
For the Period Ended March 31, 2024

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ELECTRO-SENSORS, INC. CONDENSED BALANCE SHEETS (in thousands except share and per share amounts)

	March 31, 2024 (unaudited)	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,072	\$ 9,870
Investments	56	56
Trade receivables, less allowance for credit losses of \$11 and \$11, respectively	1,119	1,283
Inventories	1,811	1,751
Other current assets	218	179
Total current assets	13,276	13,139
Deferred income tax asset, net	336	355
Property and equipment, net	927	951
Total assets	\$ 14,539	\$ 14,445
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 189	\$ 291
Accrued expenses	494	323
Accrued income taxes	61	76
Total current liabilities	744	690
Commitments and contingencies		
Stockholders' equity		
Common stock par value \$0.10 per share; authorized 10,000,000 shares; 3,428,021 shares issued and outstanding	342	342
Additional paid-in capital	2,259	2,230
Retained earnings	11,194	11,183
Total stockholders' equity	13,795	13,755
Total liabilities and stockholders' equity	\$ 14,539	\$ 14,445

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands except share and per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2024	2023
Net sales	\$ 2,244	\$ 2,045
Cost of goods sold	1,164	1,023
Gross profit	1,080	1,022
Operating expenses		
Selling and marketing	351	370
General and administrative	567	522
Research and development	262	268
Total operating expenses	1,180	1,160
Operating loss	(100)	(138)
Non-operating income		
Interest income	116	93
Total non-operating income, net	116	93
Income (loss) before income tax expense (benefit)	16	(45)
Income tax expense (benefit)	5	(1)
Net income (loss)	\$ 11	\$ (44)
Other comprehensive loss		
Change in unrealized value of available-for-sale securities, net of income tax	0	(4)
Other comprehensive loss	0	(4)
Net comprehensive income (loss)	\$ 11	\$ (48)
Net income (loss) per share data:		
Basic		
Net income (loss) per share	\$ 0.00	\$ (0.01)
Weighted average shares	3,428,021	3,428,021
Diluted		
Net income (loss) per share	\$ 0.00	\$ (0.01)
Weighted average shares	3,428,021	3,428,021

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands except share and per share amounts)

For the three months ended March 31

	<u>Common Stock Issued</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
December 31, 2023	3,428,021	\$ 342	\$ 2,230	\$ 11,183	\$ 0	\$ 13,755
Stock-based compensation expense			29			29
Net income				11		11
Balance March 31, 2024 (unaudited)	<u>3,428,021</u>	<u>\$ 342</u>	<u>\$ 2,259</u>	<u>\$ 11,194</u>	<u>\$ 0</u>	<u>\$ 13,795</u>
December 31, 2022	3,428,021	\$ 342	\$ 2,163	\$ 10,908	\$ 1	\$ 13,414
Other comprehensive loss					(4)	(4)
Net loss				(44)		(44)
Balance March 31, 2023 (unaudited)	<u>3,428,021</u>	<u>\$ 342</u>	<u>\$ 2,163</u>	<u>\$ 10,864</u>	<u>\$ (3)</u>	<u>\$ 13,366</u>

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2024	2023
Cash flows from (used in) operating activities		
Net income (loss)	\$ 11	\$ (44)
Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:		
Depreciation and amortization	24	24
Deferred income taxes	19	(50)
Stock-based compensation expense	29	0
Change in:		
Trade receivables	164	(211)
Inventories	(60)	(34)
Other current assets	(39)	(1)
Accounts payable	(102)	83
Accrued expenses	171	73
Income tax payable	(15)	48
Net cash from (used in) operating activities	202	(112)
Cash flows used in investing activities		
Purchase of property and equipment	0	(1)
Net cash used in investing activities	0	(1)
Cash flows used in financing activities		
Payments on financing lease	0	(2)
Net cash used in financing activities	0	(2)
Net increase (decrease) in cash and cash equivalents	202	(115)
Cash and cash equivalents, beginning	9,870	9,626
Cash and cash equivalents, ending	\$ 10,072	\$ 9,511
Supplemental cash flow information		
Cash paid for income taxes	\$ 0	\$ 0

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2024
(in thousands except share and per share amounts)
(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions and regulations of the Securities and Exchange Commission to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

This report should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2023, including the audited financial statements and footnotes therein.

Management believes that the unaudited financial statements include all adjustments, consisting of normal recurring accruals, necessary to fairly state the financial position and results of operations as of March 31, 2024 and for the three-month periods ended March 31, 2024 and 2023, in accordance with accounting principles generally accepted in the United States of America. The results of interim periods may not be indicative of results to be expected for the year.

Nature of Business

Electro-Sensors, Inc. (the "Company") manufactures and markets a complete line of monitoring and control systems for a wide range of industrial machine applications. The Company uses leading-edge technology to continuously improve its products, with the goal of manufacturing the industry-preferred product for each of our served markets. The Company sells these products through an internal sales staff and distributors to a wide range of industries that use the products in a variety of applications to monitor process machinery operations. The Company markets its products to customers located throughout the United States, Canada, Latin America, Europe, and Asia.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are invested in commercial paper, money market accounts and may, also, be invested in Treasury Bills with an original maturity of three months or less. Cash equivalents are carried at fair value.

The Company maintains its cash and cash equivalents primarily in two bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses on these accounts. The Company believes it is not exposed to significant credit risk on cash.

Trade receivables and credit policies

Trade receivables are uncollateralized customer obligations due under normal trade terms generally requiring payment within 30 days from the invoice date. Trade receivables are stated at the amount billed to the customer. Customer account balances with invoices over 90 days are considered delinquent. The Company does not accrue interest on delinquent trade receivables.

Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2024
(in thousands except share and per share amounts)
(unaudited)

The Company maintains an allowance for credit losses on trade receivables, which is recorded as an offset to trade receivables. Changes in the allowance for credit losses are included as a component of operating expenses in the Statements of Comprehensive Income (Loss). The Company assesses credit losses on its entire balance of trade receivables.

The allowance is based on the credit losses expected to arise over the life of the receivable (contractual term). The Company considers historical loss rates and current economic conditions when determining the expected credit losses. Receivables are written off against the allowance for credit losses. The allowance for credit losses was \$11 at March 31, 2024 and December 31, 2023.

Revenue Recognition

At contract inception, the Company assesses the goods and services to be provided to a customer and identifies a performance obligation for each distinct good or service. We also determine the transaction price for each performance obligation at contract inception. Our contracts, generally in the form of a purchase order, specify the product or service that is to be provided to the customer. The typical contract life is less than one month and contains a single performance obligation, to provide conforming goods or services to the customer. Certain contracts have a second performance obligation, which typically is the initialization of the HazardPROTM product. For contracts that have multiple performance obligations, we allocate the transaction price to each performance obligation using the relative stand-alone selling price. We generally determine stand-alone selling prices based on the observable stand-alone prices charged to customers. We recognize product revenue at the point in time when control of the product is transferred to the customer, which typically occurs when we ship the products. We recognize service revenue at the point in time when we have provided the service, which typically takes less than a week to provide.

Fair Value Measurements

The carrying value of trade receivables, accounts payable, and other financial working capital items approximates fair value at March 31, 2024 and December 31, 2023, due to the short maturity nature of these instruments.

Stock-Based Compensation

The Company records compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton ("BSM") option pricing model. The Company uses historical data, among other factors, to estimate the expected price volatility, the expected option life, and the expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2024
(in thousands except share and per share amounts)
(unaudited)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Current significant estimates, including the underlying assumptions, consist of economic lives of long-lived assets, realizability of trade receivables, and valuation of deferred tax assets/liabilities, inventory, investments, and stock compensation expense. It is at least reasonably possible that these estimates may change in the near term.

Net Income (Loss) per Common Share

Basic income (loss) per share excludes dilution and is determined by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share reflects the potential dilution that could occur if securities such as options or restricted stock units were exercised or converted into common stock.

Diluted earnings per share ("Diluted EPS") considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential shares would have an anti-dilutive effect. Diluted EPS also excludes the impact of common shares issuable upon the exercise of outstanding stock options in periods in which the option exercise price is greater than the average market price of our common stock during the period.

For the three-month periods ended March 31, 2024, and 2023, 175,000 and 300,000 respectively, weighted-average common shares for underlying stock options have been excluded from the calculation because their effect would be anti-dilutive.

In addition, for the three-month period ended March 31, 2024, 105,000 restricted stock units have been excluded from the calculation because their effect would be anti-dilutive.

Reclassification of Prior Year Presentation

All Treasury Bills have been reclassified to cash equivalents for consistency with the current year presentation. The reclassification had no effect on the reported results of operations. The Balance Sheet and Statement of Cash Flows have been adjusted to reflect this reclassification.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2024
(in thousands except share and per share amounts)
(unaudited)

Note 2. Investments

The Company has investments in common equity securities of two private U.S. companies.

Equity securities are stated at estimated fair value and unrealized gains and losses, if any, are reported in our Statements of Comprehensive Income (Loss) in non-operating income.

The cost and estimated fair value of the Company's investments are as follows:

	Cost	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2024				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
Total Investments, March 31, 2024	<u>\$ 54</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 56</u>
December 31, 2023				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
Total Investments, December 31, 2023	<u>\$ 54</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 56</u>

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2024
(in thousands except share and per share amounts)
(unaudited)

Note 3. Fair Value Measurements

The following table provides information on those assets and liabilities measured at fair value on a recurring basis.

March 31, 2024

	Carrying amount in balance sheet	Fair Value	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
Assets:					
Equity Securities	\$ 56	\$ 56	\$ 0	\$ 0	\$ 56

December 31, 2023

	Carrying amount in balance sheet	Fair Value	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
Assets:					
Equity Securities	\$ 56	\$ 56	\$ 0	\$ 0	\$ 56

The equity securities owned by the Company are investments in two non-publicly traded companies. There is an undeterminable market for each of these two companies and the Company has determined the fair value based on financial and other factors that are considered level 3 inputs in the fair value hierarchy.

The changes in level 3 assets measured at fair value on a recurring basis are as follows:

	Three Months Ended March 31,	
	2024	2023
Beginning Balance	\$ 56	\$ 56
Change in Fair Value	0	0
Ending Balance	<u>\$ 56</u>	<u>\$ 56</u>

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2024
(in thousands except share and per share amounts)
(unaudited)

Note 4. Inventories

Inventories used in the determination of cost of goods sold are as follows:

	March 31, 2024	December 31, 2023
Raw Materials	\$ 1,135	\$ 1,172
Work In Process	324	301
Finished Goods	362	288
Reserve for Obsolescence	(10)	(10)
Total Inventories, net	\$ 1,811	\$ 1,751

Note 5. Stock-Based Compensation

Stock options

The 2013 Equity Incentive Plan (the "2013 Plan") authorizes the issuance of nonqualified stock options. Payment for the shares may be made in cash, shares of the Company's common stock or a combination thereof. Under the terms of the 2013 Plan, non-qualified stock options are granted at a minimum of 100% of fair market value on the date of grant and may be exercised at various times depending upon the terms of the option. All existing options expire 10 years from the date of grant, subject to early termination 12 months after termination of employment or service due to death, disability, or termination other than for cause. The grants include a provision providing for acceleration of vesting upon a change of control in the Company.

As of March 31, 2024, the total unrecognized compensation expense related to outstanding stock options was \$ 104, which the Company expects to recognize through August 2027. The Company recognized compensation expense in connection with the vesting of stock options of approximately \$8 for the three months ended March 31, 2024. There was no stock compensation expense related to stock option grants recognized in the first quarter of 2023.

There were no stock options granted or exercised in the three months ended March 31, 2024 and 2023.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2024
(in thousands except share and per share amounts)
(unaudited)

Restricted stock units

The 2013 Plan authorizes the issuance of restricted stock units. Stock-based compensation expense is determined on the grant date based on the closing market value of our common stock. The amount of expense is calculated based on an estimate of the number of awards expected to vest at the end of each vesting period and is expensed evenly over the vesting period. In connection with the time of vesting and issuance of shares, an eligible recipient of common stock may elect to have some shares withheld by the Company to satisfy any requirement for withholding taxes. The grants include a provision providing for acceleration of vesting upon a change of control in the Company.

As of March 31, 2024, the total unrecognized compensation expenses related to outstanding restricted stock units is \$ 381, which the Company expects to recognize through August 2028. The Company recognized compensation expense in connection with the vesting of restricted stock units of approximately \$21 for the three months ended March 31, 2024. There was no stock compensation expense related to restricted stock unit grants recognized in the first quarter of 2023.

There were no restricted stock units granted or exercised in the three months ended March 31, 2024 and 2023.

Note 6. Contingencies

The Company at times becomes subject to claims against it in the ordinary course of business. There are currently no pending or threatened claims against the Company that it believes will have a material adverse effect on its results of operations or liquidity.

Note 7. Subsequent Event

On April 24, 2024, the board granted 25,000 stock options to one of its board members, with an exercise price of \$ 4.13. The options vest 20% on the date of the grant and 20% annually thereafter.

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

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We have made, and may continue to make, forward-looking statements with respect to our business and financial matters, including statements contained in this document, other filings with the Securities and Exchange Commission, and reports to shareholders. Forward-looking statements generally include discussion of current expectations or forecasts of future events and can be identified by the use of terminology such as "believe," "estimate," "expect," "intend," "may," "could," "will," and similar words or expressions. Any statement that does not relate solely to historical fact should be considered forward-looking.

Our forward-looking statements generally relate to our growth strategy, future financial results, product development, and sales efforts. We make forward-looking statements throughout this Form 10-Q, but primarily in this Management's Discussion and Analysis of Financial Condition and Results of Operations section. These include statements relating to our beliefs and expectations and intentions with respect to (i) our growth and profitability, (ii) our marketing and product development, (iii) our ability to continue to obtain parts and materials for our products from various manufacturers and distributors in a timely manner and at reasonable prices, (iv) the value of our intellectual property, (v) our competitive position in the marketplace, (vi) the effect of governmental regulations on our business, (vii) our employee relations, (viii) the adequacy of our facilities, (ix) our intention to develop new products, (x) the possibility of us acquiring compatible businesses or product lines as part of our growth strategy, and (xi) our future cash requirements and use of cash.

Forward-looking statements cannot be guaranteed and our actual results may vary materially due to the uncertainties and risks, known and unknown, associated with these statements, including our ability to successfully develop new products and manage our cash requirements. We undertake no obligation to update any forward-looking statements. We cannot foresee or identify all factors that could cause actual results to differ from expected or historical results. As such, investors should not consider any list of these factors to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions. These forward-looking statements are subject to certain risks and uncertainties that could cause future results to differ materially from our recent results listed under the heading "Forward-Looking Statements" under "Item 1—Business," in our Annual Report on Form 10-K for the year ended December 31, 2023.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers relevant to the circumstances. These decisions include the selection of applicable accounting principles and the use of judgment in their application and affect reported amounts and disclosures. Changes in economic conditions or other business circumstances may affect the outcomes of management's estimates and assumptions. An in-depth description of our accounting estimates can be found in the interim financial statements included in this report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

SELECTED FINANCIAL INFORMATION

The following table contains selected financial information, for the periods indicated, from our Condensed Statements of Comprehensive Income (Loss) expressed as a percentage of net sales.

	Three Months Ended March 31	
	2024	2023
Net sales	100.0%	100.0%
Cost of goods sold	51.9	50.0
Gross profit	48.1	50.0
Operating expenses		
Selling and marketing	15.6	18.1
General and administrative	25.3	25.5
Research and development	11.7	13.1
Total operating expenses	52.6	56.7
Operating loss	(4.5)	(6.7)
Non-operating income		
Interest income	5.2	4.5
Total non-operating income, net	5.2	4.5
Income (loss) before income tax expense (benefit)	0.7	(2.2)
Income tax expense (benefit)	0.2	(0.0)
Net income (loss)	0.5%	(2.2)%

The following paragraphs discuss the Company's performance for the three months ended March 31, 2024 and 2023.

RESULTS OF OPERATIONS (in thousands)

Net Sales

Net sales for the first quarter of 2024 were \$ 2,244, an increase of \$199, or 9.7%, from \$2,045 during the comparable period in 2023. The increase was primarily driven by several larger orders for facility upgrades and modernization projects. Additionally, sales increased for both our traditional wired sensors and wireless HazardPRO systems.

Gross Profit

Gross profit for the first quarter of 2024 was \$1,080, an increase of \$58, or 5.7%, over the same period in 2023. Gross margin decreased in the first quarter of 2024 to 48.1% from 50.0% during the same period in 2023. The decrease in gross margin was primarily due to an increase in material and labor costs across all product lines.

Operating Expenses

Total operating expenses increased \$20, or 1.7%, to \$1,180 for the first quarter of 2024 compared to the same period in 2023 but decreased as a percentage of net sales to 52.6% from 56.7%. The increase in operating expenses for the period was primarily due to stock-based compensation related to the granting of stock options and restricted stock units in the third quarter of 2023.

- Selling and marketing expenses in the first quarter of 2024 decreased \$19 to \$351, or 5.1%, from the same period in 2023 and decreased as a percentage of net sales to 15.6% from 18.1%. The decrease in the period was primarily due to lower sales headcount.
- General and administrative expenses increased \$45 to \$567, or 8.6%, in the first quarter of 2024 compared to the same period in 2023 but decreased as a percentage of net sales to 25.3% from 25.5%. The increase in the period was primarily due to an increase in stock-based compensation and additional headcount, partially offset by a decrease in legal and professional fees.
- Research and development expenses decreased \$6 to \$262, or 2.2%, in the first quarter of 2024 compared to the same period in 2023 and decreased as a percentage of net sales to 11.7% from 13.1%. The decrease for the period was due to lower contract engineering costs related to product development and enhancements.

Non-Operating Income

Net non-operating income increased by \$23, or 24.7%, for the three-month period ended March 31, 2024 compared to the same period in 2023. The increase for the period is the result of additional interest income earned as a result of higher interest rates on Treasury Bills.

Income (Loss) Before Income Tax Expense (Benefit)

Income before income tax expense was \$16 for the first quarter of 2024, representing an increase of \$61 compared to loss before income tax benefit of \$45 for the same period in 2023. The increase for the period was primarily due to higher revenues and an increase in interest income, partially offset by lower gross margins, as discussed above.

Income Tax Expense (Benefit)

Income tax expense was \$5, or 0.0%, of net sales in the first quarter of 2024 compared to an income tax expense of \$1, or 0.0%, of net sales in the first quarter of 2023. The effective tax rate for the first quarter of 2024 was 31% compared to 2.2% in the first quarter of 2023. The change in the effective tax rate is due to the change in deferred taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$10,072 at March 31, 2024 and \$9,870 at December 31, 2023. The increase was primarily the result of an increase in cash from operating activities.

Cash from operating activities was \$202 for the three months ended March 31, 2024 as compared to cash used in operating activities of \$ 112 for the three months ended March 31, 2023. The \$314 increase in cash from operating activities was due primarily to an increase in net income and a decrease in trade receivables. The 2024 net income compared to the 2023 net loss was primarily due to increased net sales and interest income, partially offset by a decrease in gross margin. The decrease in trade receivables is due to the timing of sales and collections.

Cash used in investing activities was \$1 for the three months ended March 31, 2023. There was no cash flow from investing activities in the three months ended March 31, 2024.

Cash used in financing activities in the three months ended March 31, 2023 was \$2. There was no cash flow from financing activities in the three months ended March 31, 2024.

Subject to the following section, entitled "Supply Chain and Labor Dynamics," the Company believes its ongoing cash requirements will be primarily for capital expenditures, research, and development, working capital, corporate and business development, and other strategic alternatives and that existing cash, cash equivalents, and investments and any cash generated from operations will be sufficient to meet these cash requirements through at least the next 12 months.

Supply Chain and Labor Dynamics

We traditionally have had one or more robust sources for production components and materials. However, we continue to experience disruptions in our supply chain, resulting in difficulty sourcing some components. We are also experiencing price increases for many of the components used in our products. To meet these challenges, we are seeking additional sources for components and modifying product designs to accommodate new components that are more readily available at competitive prices. There is no guarantee that we will continue to be successful in modifying these designs and sourcing alternative components. As a result, we could experience significant delays in receiving certain components needed to make timely customer deliveries, as well as increased costs that erode gross margins. Supply chain dynamics may have an effect on the efficiency of our business operations, our customer base, and the domestic or worldwide economy. Furthermore, the labor market for qualified employees able to fill our various open positions is challenging and may result in delays in filling these positions. In addition, we may experience changes in transportation and freight availability that may make it difficult to have materials and components shipped to us, or our products shipped to customers, in a timely and cost-effective manner. While we continue to closely manage each of these activities, our actions may not be successful and may result in a negative effect on our sales and profit margins.

Future Corporate and Business Development Activities

We continue to seek growth opportunities, both internally through our existing portfolio of products, technologies, and markets, as well as externally through technology partnerships or related-product or business acquisitions. In addition, we continue to explore other strategic alternatives that we believe present good opportunities for the Company and its shareholders. The Company's Board of Directors has a special committee to explore and pursue business development and other strategic alternatives.

Off-balance Sheet Arrangements

As of March 31, 2024, the Company had no off-balance sheet arrangements or transactions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation with the participation of the Company's management, the Company's principal executive officer and principal financial officer has concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), were effective as of March 31, 2024.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the first quarter of 2024 that were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings – None

Item 1A. Risk Factors – Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None

Item 3. Defaults Upon Senior Securities – None

Item 4. Mine Safety Disclosures – Not Applicable

Item 5. Other Information – None

Item 6. Exhibits

Exhibit	Description
<u>31.1</u>	<u>Certification of CEO and CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following financial information from Electro-Sensors, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024, formatted in iXBRL (Inline Extensible Business Reporting Language), (i) Condensed Balance Sheets as of March 31, 2024 and December 31, 2023, (ii) Condensed Statements of Comprehensive Income (Loss) for the three months ended March 31, 2024 and March 31, 2023, (iii) Condensed Statements of Changes in Stockholders' Equity for the three months ended March 31, 2024 and March 31, 2023, (iv) Condensed Statements of Cash Flows for the three months ended March 31, 2024 and March 31, 2023, and (v) Notes to Financial Statements.

SIGNATURES

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

Electro-Sensors, Inc.

May 10, 2024

/s/ David L. Klenk

David L. Klenk

Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY-ACT OF 2002**

I, David L. Klenk, certify that:

1. I have reviewed this report on Form 10-Q of Electro-Sensors, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. I am 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 my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my 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 my 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my 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.

May 10, 2024

/s/ David L. Klenk
David L. Klenk
Chief Executive Officer and Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Electro-Sensors, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Klenk, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 10, 2024

/s/ David L. Klenk
David L. Klenk
Chief Executive Officer and Chief Financial Officer