

REFINITIV

DELTA REPORT

10-Q

NSYS - NORTECH SYSTEMS INC

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 531

 CHANGES 233

 DELETIONS 140

 ADDITIONS 158

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June** **September** 30, 2024
OR

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

For the transition period from _____ to _____

NORTECH SYSTEMS INCORPORATED

Commission file number **0-13257**

State of Incorporation: **Minnesota**

IRS Employer Identification No. **41-1681094**

Executive Offices: **7550 Meridian Circle N., Suite # 150, Maple Grove, MN 55369**

Telephone number: **(952) 345-2244**

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, par value \$.01 per share	NSYS	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 Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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
Non-accelerated Filer
Emerging growth company

Accelerated Filer
Smaller Reporting 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. Yes No

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

Number of shares of \$.01 par value common stock outstanding as of **August 1, 2024** **November 1, 2024** was **2,762,177** **2,756,754**.

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PART I
ITEM 1. FINANCIAL STATEMENTS

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF **INCOME OPERATIONS** AND COMPREHENSIVE (LOSS) INCOME **(LOSS)**
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE DATA)

	2024	2023	2024	2023	2024	2023	2024	2023
	THREE MONTHS ENDED		SIX MONTHS ENDED		THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30,		JUNE 30,		SEPTEMBER 30,		SEPTEMBER 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
Net sales	\$ 33,891	\$ 35,021	\$ 68,106	\$ 69,909	\$ 31,407	\$ 33,369	\$ 99,513	\$ 103,278
Cost of goods sold	29,274	29,547	58,041	58,951	27,572	28,050	85,613	87,001
Gross profit	4,617	5,474	10,065	10,958	3,835	5,319	13,900	16,277
Operating expenses:								
Selling	909	953	1,714	1,843	891	923	2,605	2,766
General and administrative	2,982	3,105	6,152	6,370	2,951	2,958	9,103	9,328
Research and development	291	317	609	593	284	314	893	907
Restructuring charges	91	-	91	-	176	-	267	-
Total operating expenses	4,273	4,375	8,566	8,806	4,302	4,195	12,868	13,001
Income from operations	344	1,099	1,499	2,152				
(Loss) income from operations					(467)	1,124	1,032	3,276
Other expense:								
Interest expense	(165)	(125)	(332)	(235)	(216)	(130)	(548)	(365)
Income before income taxes	179	974	1,167	1,917				
Income tax expense	22	340	245	602				
Net income	\$ 157	\$ 634	\$ 922	\$ 1,315				
(Loss) income before income taxes					(683)	994	484	2,911
Income tax expense (benefit)					56	(213)	301	389
Net (loss) income					\$ (739)	\$ 1,207	\$ 183	\$ 2,522
Net income per common share:								
Net (loss) income per common share:								
Basic (in dollars per share)	\$ 0.06	\$ 0.23	\$ 0.34	\$ 0.49	\$ (0.27)	\$ 0.44	\$ 0.07	\$ 0.93
Weighted average number of common shares outstanding - basic (in shares)	2,760,052	2,718,066	2,751,330	2,705,121	2,760,438	2,737,895	2,754,399	2,716,166
Diluted (in dollars per share)	\$ 0.05	\$ 0.22	\$ 0.32	\$ 0.46	\$ (0.27)	\$ 0.42	\$ 0.06	\$ 0.87
Weighted average number of common shares outstanding - diluted (in shares)	2,935,671	2,870,848	2,922,113	2,887,313	2,760,438	2,888,679	2,931,343	2,887,889
Other comprehensive income (loss)								
Other comprehensive (loss) income								
Foreign currency translation	(175)	(281)	(358)	(241)	223	(77)	(135)	(318)

Comprehensive income (loss), net of tax	\$ (18)	\$ 353	\$ 564	\$ 1,074
Comprehensive (loss) income, net of tax			\$ (516)	\$ 1,130

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements.

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2024 AND DECEMBER 31, 2023
(IN THOUSANDS, EXCEPT SHARE DATA)

	JUNE 30, 2024	DECEMBER 31, 2023⁽¹⁾	SEPTEMBER 30, 2024	DECEMBER 31, 2023⁽¹⁾
ASSETS				
Current assets:				
Cash	\$ 1,542	\$ 960	\$ 1,239	\$ 960
Restricted cash	-	715	-	715
Accounts receivable, less allowances of \$270 and \$358, respectively	17,577	19,279		
Accounts receivable, less allowances of \$286 and \$358, respectively			16,584	19,279
Inventories, net	22,793	21,660	22,332	21,660
Contract assets	14,957	14,481	15,058	14,481
Prepaid assets and other assets	2,291	1,698	5,065	1,698
Total current assets	<u>59,160</u>	<u>58,793</u>	<u>60,278</u>	<u>58,793</u>
Property and equipment, net	6,001	6,513	5,834	6,513
Operating lease assets, net	8,274	6,917	8,034	6,917
Deferred tax assets	2,641	2,641	2,641	2,641
Other intangible assets, net	183	263	179	263
Total assets	<u>\$ 76,259</u>	<u>\$ 75,127</u>	<u>\$ 76,966</u>	<u>\$ 75,127</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of finance lease obligations	\$ 214	\$ 356	\$ 175	\$ 356
Current portion of operating lease obligations	1,169	1,033	1,174	1,033
Accounts payable	12,728	15,924	12,315	15,924
Accrued payroll and commissions	2,612	4,138	2,940	4,138
Customer deposits	5,453	4,068	5,263	4,068
Other accrued liabilities	1,120	1,063	1,451	1,063
Total current liabilities	<u>23,296</u>	<u>26,582</u>	<u>23,318</u>	<u>26,582</u>
Long-term liabilities:				
Long-term line of credit, net of issuance costs	8,314	5,815	9,508	5,815
Long-term finance lease obligations, net of current portion	146	209	340	209
Long-term operating lease obligations, net of current portion	7,949	6,763	7,689	6,763
Other long-term liabilities	409	414	421	414
Total long-term liabilities	<u>16,818</u>	<u>13,201</u>	<u>17,958</u>	<u>13,201</u>
Total liabilities	<u>40,114</u>	<u>39,783</u>	<u>41,276</u>	<u>39,783</u>
Shareholders' equity:				
Preferred stock, \$1 par value; 1,000,000 shares authorized; 250,000 shares issued and outstanding	250	250	250	250
Common stock - \$0.01 par value; 9,000,000 shares authorized; 2,762,177 and 2,740,178 shares issued and outstanding, respectively	28	27		
Common stock - \$0.01 par value; 9,000,000 shares authorized; 2,756,367 and 2,740,178 shares issued and outstanding, respectively			28	27
Additional paid-in capital	17,165	16,929	17,226	16,929
Accumulated other comprehensive loss	(890)	(532)	(667)	(532)
Retained earnings	19,592	18,670	18,853	18,670
Total shareholders' equity	<u>36,145</u>	<u>35,344</u>	<u>35,690</u>	<u>35,344</u>
Total liabilities and shareholders' equity	<u>\$ 76,259</u>	<u>\$ 75,127</u>	<u>\$ 76,966</u>	<u>\$ 75,127</u>

(1) The balance sheet as of December 31, 2023 has been derived from the consolidated audited financial statements at that date.

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements.

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 922	\$ 1,315
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	966	1,027
Compensation on stock-based awards	206	192
Change in inventory reserves	113	(53)
Change in accounts receivable allowances	(88)	(31)
Other, net	(59)	(116)
Changes in current operating assets and liabilities:		
Accounts receivable	1,690	(1,580)
Employee Retention Credit Receivable	-	2,650
Inventories	(1,288)	1,350
Contract assets	(476)	(1,620)
Prepaid expenses and other current assets	(531)	(1,042)
Accounts payable	(2,546)	586
Accrued payroll and commissions	(1,516)	(1,788)
Customer deposits	1,385	(195)
Other accrued liabilities	(236)	(414)
Net cash (used in) provided by operating activities	<u>(1,458)</u>	<u>281</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	9	-
Purchases of property and equipment	(1,020)	(956)
Net cash used in investing activities	<u>(1,011)</u>	<u>(956)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	68,323	65,886
Payments to line of credit	(65,809)	(65,726)
Principal payments on financing leases	(202)	(189)
Proceeds from stock option exercises	31	173
Net cash provided by financing activities	<u>2,343</u>	<u>144</u>
Effect of exchange rate changes on cash	<u>(7)</u>	<u>(35)</u>
Net change in cash and cash equivalents	(133)	(566)
Cash and cash equivalents - beginning of period	1,675	2,481
Cash and cash equivalents - end of period	<u>\$ 1,542</u>	<u>\$ 1,915</u>
Reconciliation of cash and restricted cash reported within the condensed consolidated balance sheets:		
Cash	\$ 1,542	\$ 781
Restricted cash	-	1,134
Total cash and restricted cash reported in the condensed consolidated statements of cash flows	<u>\$ 1,542</u>	<u>\$ 1,915</u>

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	2024	2023
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 307	\$ 248
Cash paid for income taxes	\$ 279	\$ 1,036
Supplemental noncash investing and financing activities:		
Property and equipment purchases in accounts payable	\$ 75	\$ 49
Operating lease assets acquired under operating leases	\$ 1,923	\$ -
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 183	\$ 2,522
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,400	1,539
Compensation on stock-based awards	334	299
Change in inventory reserves	194	(8)
Change in accounts receivable allowances	(72)	(18)
Other, net	9	137
Changes in current operating assets and liabilities:		
Accounts receivable	2,727	(162)
Employee Retention Credit Receivable	-	2,650
Inventories	(922)	899
Contract assets	(577)	(1,780)
Prepaid expenses and other current assets	(2,888)	(976)
Accounts payable	(3,609)	(1,636)
Accrued payroll and commissions	(1,198)	(810)
Customer deposits	1,195	345
Other accrued liabilities	181	(820)
Net cash (used in) provided by operating activities	<u>(3,043)</u>	<u>2,181</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	9	-
Purchases of property and equipment	(980)	(1,121)
Net cash used in investing activities	<u>(971)</u>	<u>(1,121)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	99,888	95,783
Payments to line of credit	(96,185)	(98,035)
Proceeds from financing leases	198	-
Principal payments on financing leases	(304)	(291)
Share repurchases	(67)	-
Proceeds from stock option exercises	31	155
Net cash provided by (used in) financing activities	<u>3,561</u>	<u>(2,388)</u>
Effect of exchange rate changes on cash	<u>17</u>	<u>(32)</u>
Net change in cash and cash equivalents	(436)	(1,360)
Cash - beginning of period	1,675	2,481
Cash - end of period	<u>\$ 1,239</u>	<u>\$ 1,121</u>
Reconciliation of cash and restricted cash reported within the condensed consolidated balance sheets:		
Cash	\$ 1,239	\$ 699
Restricted cash	-	422
Total cash and restricted cash reported in the condensed consolidated statements of cash flows	<u>\$ 1,239</u>	<u>\$ 1,121</u>

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2024	2023
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 531	\$ 388
Cash paid for income taxes	\$ 374	\$ 1,242
Supplemental noncash investing and financing activities:		
Property and equipment purchases in accounts payable	\$ 107	\$ 23
Operating lease assets acquired under operating leases	\$ 1,923	\$ -
Equipment acquired under finance lease	\$ 256	\$ -

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements.

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS)

	Accumulated								Shares	Amount	Shares	Amount
	Additional				Other		Total		Preferred Stock	Common Stock	Preferred Stock	Common Stock
	Preferred Stock	Common Stock	Paid-In Capital	Comprehensive Loss	Retained Earnings	Shareholders' Equity						
Balance as of												
March 31, 2023	250	\$ 250	2,701	\$ 27	\$ 16,481	\$ (330)	\$ 12,477	\$ 28,905				
Balance as of									Shares	Amount	Shares	Amount
June 30, 2023									250	\$ 250	2,737	\$ 27
Net income	-	-	-	-	-	-	634	634	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	(281)	-	(281)	-	-	-	-
Stock option exercises	-	-	36	-	138	-	-	138	-	-	-	-
Compensation on stock-based awards	-	-	-	-	93	-	-	93	-	-	-	-
Balance as of												
June 30, 2023	250	\$ 250	2,737	\$ 27	\$ 16,712	\$ (611)	\$ 13,111	\$ 29,489				
Balance as of									250	\$ 250	2,737	\$ 27
September 30, 2023												
Balance as of												
March 31, 2024	250	\$ 250	2,755	\$ 27	\$ 17,009	\$ (715)	\$ 19,435	\$ 36,006				
Net income	-	-	-	-	-	-	157	157	-	-	-	-
Balance as of									250	\$ 250	2,762	\$ 28
June 30, 2024												
Net loss	-	-	-	-	-	(175)	-	(175)	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	-
Issuance for stock-based awards	-	-	7	-	126	-	-	126	-	-	-	-
Compensation on stock-based awards	-	-	-	1	30	-	-	31	-	-	-	-
Balance as of												
June 30, 2024	250	\$ 250	2,762	\$ 28	\$ 17,165	\$ (890)	\$ 19,592	\$ 36,145				
Stock repurchases	-	-	-	-	-	-	-	(6)	-	-	-	-
Balance as of												
September 30, 2024									250	\$ 250	2,756	\$ 28

Balance as of December 31, 2022	250	\$	250	2,691	\$	27	\$	16,347	\$	(370)	\$	11,826	\$	28,080	250	\$	250	2,691	\$	27
Net income	-	-	-	-	-	-	-	-	-	-	-	1,315	-	1,315	-	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	(241)	-	-	(241)	-	-	-	-	-	-	-
Compensation on stock-based awards	-	-	-	-	-	-	-	192	-	-	-	-	192	-	-	-	-	-	-	-
Issuance for stock-based awards	-	-	-	46	-	-	-	173	-	-	-	-	-	173	-	-	-	-	-	-
Stock option exercises	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46	-	-
Cumulative adjustment related to adoption of ASC 326 (current expected credit loss)	-	-	-	-	-	-	-	-	-	-	(30)	-	(30)	-	-	-	-	-	-	-
Balance as of June 30, 2023	250	\$	250	2,737	\$	27	\$	16,712	\$	(611)	\$	13,111	\$	29,489	250	\$	250	2,737	\$	27
Balance as of September 30, 2023	250	\$	250	2,737	\$	27	\$	16,712	\$	(611)	\$	13,111	\$	29,489	250	\$	250	2,737	\$	27
Balance as of December 31, 2023	250	\$	250	2,740	\$	27	\$	16,929	\$	(532)	\$	18,670	\$	35,344	250	\$	250	2,740	\$	27
Balance	250	\$	250	2,740	\$	27	\$	16,929	\$	(532)	\$	18,670	\$	35,344	250	\$	250	2,740	\$	27
Net income	-	-	-	-	-	-	-	-	-	-	922	-	922	-	-	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	(358)	-	-	(358)	-	-	-	-	-	-	-
Compensation on stock-based awards	-	-	-	-	-	-	-	206	-	-	-	-	206	-	-	-	-	-	-	-
Issuance for stock-based awards	-	-	-	22	-	1	-	30	-	-	-	-	31	-	-	-	-	-	-	-
Balance as of June 30, 2024	250	\$	250	2,762	\$	28	\$	17,165	\$	(890)	\$	19,592	\$	36,145	250	\$	250	2,756	\$	28
Stock option exercises	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22	-	1
Stock repurchases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6)	-	-
Balance as of September 30, 2024	250	\$	250	2,762	\$	28	\$	17,165	\$	(890)	\$	19,592	\$	36,145	250	\$	250	2,756	\$	28
Balance	250	\$	250	2,762	\$	28	\$	17,165	\$	(890)	\$	19,592	\$	36,145	250	\$	250	2,756	\$	28

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements.

**CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements for the interim periods have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, the Company has omitted footnote disclosures that would substantially duplicate the disclosures contained in the Company's audited consolidated financial statements. These unaudited condensed consolidated financial statements should be read together with the audited consolidated financial statements for the year ended December 31, 2023, and notes thereto included in our Annual Report on Form 10-K as filed with the SEC.

The condensed consolidated financial statements include the accounts of Nortech Systems Incorporated and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. All dollar amounts are stated in thousands of U.S. dollars.

Use of Estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of our consolidated financial statements. Estimates also affect the reported amounts of net sales and expenses during each reporting period. Significant items subject to estimates and assumptions include the valuation allowance for inventories, accounts receivable allowances, realizability of deferred tax assets and long-lived asset recovery. Actual results could differ from those estimates.

Recently Issued New Accounting Standards

In November 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2023-07, Segment Reporting Topic (280): *Improvements to Reportable Segment Disclosure*. The ASU supplements reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): *Improvements to Income Tax Disclosures*. The ASU enhances the transparency and decision usefulness of income tax disclosures and is effective for annual periods beginning after December 15, 2024 on a prospective basis. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements and related disclosures.

Out-of-Period Correction

During the first quarter of 2024, we identified an error that understated our accrued liabilities by approximately \$178 as of December 31, 2023. We corrected the error on a prospective basis during the first quarter of 2024 through an out of period adjustment lowering our net income by \$178 in both the three and six months ended June 30, 2024. We assessed the materiality of the error and concluded that the error was not material to the results of operations or financial condition or for the prior annual and interim periods, and the correction is not expected to be material to the full year results for fiscal year 2024.

Inventories

Inventories are as follows:

	June 30,	December 31,	September 30,	December 31,
	2024	2023	2024	2023
	\$ 22,463	\$ 20,863	\$ 21,596	\$ 20,863
Raw materials	\$ 22,463	\$ 20,863	\$ 21,596	\$ 20,863
Work in process	645	1,033	1,108	1,033
Finished goods	965	934	992	934
Reserves	(1,280)	(1,170)	(1,364)	(1,170)
Inventories, net	\$ 22,793	\$ 21,660	\$ 22,332	\$ 21,660

Other Intangible Assets

Other intangible assets as of **June 30, 2024** **September 30, 2024** and December 31, 2023 are as follows:

	Customer Relationships	Patents	Total	Customer Relationships	Patents	Total
	\$ 216	\$ 206	\$ 422	\$ 216	\$ 206	\$ 422
Balances as of January 1, 2023	\$ 216	\$ 206	\$ 422	\$ 216	\$ 206	\$ 422
Amortization	144	15	159	144	15	159
Balances as of December 31, 2023	\$ 72	\$ 191	\$ 263	\$ 72	\$ 191	\$ 263
Balances	\$ 72	\$ 191	\$ 263	\$ 72	\$ 191	\$ 263
Amortization	72	8	80	72	12	84
Balances as of June 30, 2024	\$ -	\$ 183	\$ 183			
Balances as of September 30, 2024				\$ -	\$ 179	\$ 179
Balances	\$ -	\$ 183	\$ 183	\$ -	\$ 179	\$ 179

Intangible assets are amortized on a straight-line basis over their estimated useful lives. The weighted average remaining amortization period of our intangible assets is 5.5 years. Of the patents value as of **June 30, 2024** **September 30, 2024**, \$98.94 are being amortized and \$85 are in process and a patent has not yet been issued.

Amortization expense of finite life intangible assets for both the three months ended **June 30, 2024** **September 30, 2024** and 2023 was \$4 and \$40, respectively. Amortization expense of finite life intangible assets for both the six nine months ended **June 30, 2024** **September 30, 2024** and 2023 was \$84 and \$80.120, respectively.

As of **June 30, 2024** **September 30, 2024**, estimated future annual amortization expense (except projects in process) related to these assets is as follows:

Year	Amount	
	\$	\$
2024	9	5
2025	18	18
2026	18	18
2027	18	18
2028	18	18
Thereafter	17	17
Total	\$ 98	\$ 94

NOTE 2. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash, accounts receivable, and contract assets. With regard to cash, we maintain our excess cash balances in checking accounts at primarily two financial institutions, one in the United States and one in China. The account in the United States may at times exceed federally insured limits. The Company's \$1,542.1,239 cash balance as of **June 30, 2024** **September 30, 2024** included approximately \$1,141.1,035 and \$32.6 that was held at banks located in China and Mexico, respectively. We grant credit to customers in the normal course of business and generally do not require collateral on our accounts receivable.

We have certain customers whose revenue individually represented 10% or more of net sales, or whose accounts receivable balances individually represented 10% or more of gross accounts receivable. One customer accounted for 26.28% and 25.26% of net sales for the three and six nine months ended **June 30, 2024** **September 30, 2024**, respectively. Two customers accounted for 36% and 39.38% of net sales for both the three and six nine months ended **June 30, 2023** **September 30, 2023**.

As of **June 30, 2024** **September 30, 2024**, **three one** **customers customer** represented approximately **39** **22**% of our gross accounts receivable. As of December 31, 2023, two customers represented approximately 35% of our gross accounts receivable.

Contract assets for three customers accounted for **43** **44**% of gross contract assets as of **June 30, 2024** **September 30, 2024**. Contract assets for two customers accounted for 34% of gross contract assets as of December 31, 2023.

Export sales from the U.S. represented approximately **3**% and **2**% of net sales for both the three and **six** **nine** months ended **June 30, 2024**, respectively, **September 30, 2024**. Export sales represented approximately 3% of net sales for both three and **six** **nine** month ended **June 30, 2023** **September 30, 2023**.

NOTE 3. REVENUE

Revenue Recognition

Revenue under contract manufacturing agreements that was recognized over time accounted for approximately 72% and 73% of net sales for the three and nine months ended September 30, 2024, respectively and approximately 74% of net sales for both the three and **six** **nine** months ended **June 30, 2024** and approximately 73% and 74% of net sales for the three and six months ended June 30, 2023 **September 30, 2023**, respectively.

The following tables summarize our net sales by market for the three months ended **June 30, 2024** **September 30, 2024** and 2023, respectively:

	Three Months Ended June 30, 2024				Three Months Ended September 30, 2024			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market
Medical	\$ 12,725	\$ 4,435	\$ 711	\$ 17,871	\$ 12,711	\$ 4,435	\$ 901	\$ 18,047
Industrial					5,505	2,667	262	8,434
Aerospace and defense	6,097	494	44	6,635	4,394	494	38	4,926
Industrial	6,163	2,667	555	9,385				
Total net sales	\$ 24,985	\$ 7,596	\$ 1,310	\$ 33,891	\$ 22,610	\$ 7,596	\$ 1,201	\$ 31,407
	Three Months Ended June 30, 2023				Three Months Ended September 30, 2023			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market
Medical	\$ 14,570	\$ 5,318	\$ 719	\$ 20,607	\$ 12,029	\$ 5,185	\$ 621	\$ 17,835
Industrial					8,195	1,999	241	10,435
Aerospace and defense	4,499	674	182	5,355	4,609	450	40	5,099
Industrial	6,593	2,125	341	9,059				
Total net sales	\$ 25,662	\$ 8,117	\$ 1,242	\$ 35,021	\$ 24,833	\$ 7,634	\$ 902	\$ 33,369

¹ Noncash consideration represents material provided by the customer used in the build of the product.

The following tables summarize our net sales by market for the **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023, respectively:

	Six Months Ended June 30, 2024				Nine Months Ended September 30, 2024			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market
Medical	\$ 25,789	\$ 9,679	\$ 1,508	\$ 36,976	\$ 37,469	\$ 14,112	\$ 2,410	\$ 53,991
Industrial					18,847	7,682	1,114	27,643
Aerospace and defense	11,301	736	116	12,153	16,494	1,231	154	17,879
Industrial	13,110	5,014	853	18,977				
Total net sales	\$ 50,200	\$ 15,429	\$ 2,477	\$ 68,106	\$ 72,810	\$ 23,025	\$ 3,678	\$ 99,513
	Six Months Ended June 30, 2023				Nine Months Ended September 30, 2023			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration ¹	Total Net Sales by Market
Medical	\$ 30,295	\$ 10,379	\$ 1,305	\$ 41,979	\$ 42,324	\$ 15,564	\$ 1,926	\$ 59,814
Industrial					21,378	6,532	1,056	28,966
Aerospace and defense	7,914	1,224	261	9,399	12,523	1,674	301	14,498
Industrial	13,183	4,533	815	18,531				
Total net sales	\$ 51,392	\$ 16,136	\$ 2,381	\$ 69,909	\$ 76,225	\$ 23,770	\$ 3,283	\$ 103,278

¹ Noncash consideration represents material provided by the customer used in the build of the product.

Contract Assets

Contract assets, recorded as such in the Condensed Consolidated Balance Sheet, consist of unbilled amounts related to revenue recognized over time. Significant changes in the contract assets balance during the **six** **nine** months ended **June 30, 2024** **September 30, 2024** were as follows:

Balances as of January 1, 2024		\$ 14,481	\$ 14,481
Increase (decrease) attributed to:			
Amounts transferred over time to contract assets		27,904	72,810
Allowance for current expected credit losses		(14)	(15)
Amounts invoiced during the period		(27,414)	(72,218)
Balance outstanding as of June 30, 2024		\$ 14,957	
Balance outstanding as of September 30, 2024			\$ 15,058

We expect substantially all of the remaining performance obligations for the contract assets recorded as of **June 30, 2024** **September 30, 2024** to be transferred to **receivables** accounts receivable within 90 days, with any remaining amounts to be transferred within 180 days. We bill our customers upon shipment with payment terms of up to 120 days.

NOTE 4. FINANCING ARRANGEMENTS

We had a credit agreement with Bank of America, which was entered into on June 15, 2017 and provides for a line of credit arrangement of \$16,000, that was to expire on June 15, 2026.

On February 29, 2024, we replaced the asset backed line of credit agreement with a \$15,000 Senior Secured Revolving Line of Credit with Bank of America (the “Revolver”). The Revolver allows for borrowings at a defined base rate, or at the one, three or six month Secured Overnight Finance Rate, also known as “SOFR”, “SOFR,” plus a defined margin. If the Company prepays SOFR borrowings before their contractual maturity, the Company has agreed to compensate the bank for lost margin, as defined in the Revolver agreement. The Company is required to quarterly pay a 20-basis point fee on the unused portion of the Revolver.

The Revolver requires the Company to maintain no more than 2.5 times leverage ratio and at least a 1.25 times minimum fixed charges coverage ratio, both of which are defined in the Revolver agreement. The Company met the covenants for the period ended **June 30, 2024** **September 30, 2024**. There are no subjective acceleration clauses under the Revolver that would accelerate the maturity of outstanding borrowings. The Revolver contains certain covenants which, among other things, require the Company to adhere to regular reporting requirements, abide by shareholder dividend limitations, maintain certain financial performance, and limit the amount of annual capital expenditures. The Revolver is secured by substantially all the Company’s assets and expires on February 28, 2027. We were in compliance with all the financial covenants related to this agreement as of and for the period ended **June 30, 2024** **September 30, 2024**, except for the covenant related to operating expense contributions to our Mexican operations in the first and second quarters of 2024 in excess of the amounts allowed under the Revolver. We have received a waiver of this event of default from the bank, bank in August 2024.

Under the amended Bank of America credit agreement signed February 29, 2024, the line of credit is subject to variations in the SOFR index rate. Under the prior credit agreement with Bank of America, the line of credit borrowing availability was restricted by a defined asset borrowing base, and interest was based on variations in the Bloomberg Short-Term Bank Yield (BSBY) index rate.

Our line of credit bears interest at a weighted-average interest rate of **8.0** 7.9% and 8.3% as of **June 30, 2024** September 30, 2024 and December 31, 2023, respectively. We had borrowings on our line of credit of **\$8,360** 9,550 and \$5,846 outstanding as of **June 30, 2024** September 30, 2024 and December 31, 2023, respectively. As of **June 30, 2024** September 30, 2024 we had unused availability on the line of credit of **\$6,440** 5,450.

The Company has an interim funding agreement as of September 30, 2024 with a bank related to \$317 of deposits made on equipment purchases that will be funded through a finance lease when the equipment is received and operational. As of September 30, we have \$317 outstanding on the interim funding agreement for equipment we expect to receive in the fourth quarter of 2024.

The line of credit is shown net of debt issuance costs of **\$46** 42 and \$31 on the condensed consolidated balance sheet as of **June 30, 2024** September 30, 2024 and December 31, 2023, respectively.

NOTE 5. LEASES

We have operating leases for certain manufacturing sites, office space, and equipment. Most leases include the option to renew, with renewal terms that can extend the lease term from one to five years or more. Right-of-use lease assets and lease liabilities are recognized at the commencement date based on the present value of the remaining lease payments over the lease term which includes renewal periods we are reasonably certain to exercise. Our leases do not contain any material residual value guarantees or material restrictive covenants. As of June 30, 2024, we do not have material lease commitments that have not commenced. We extended amended our operating leases for part of our manufacturing facility in China and our corporate office in Maple Grove, MN Minnesota during the first six nine months of 2024 which extended the lease through August of 2033 with monthly lease payments of \$14 to \$18. As of September 30, 2024, we have a lease commitment of approximately \$400 for a finance lease that will commence in the fourth quarter of 2024.

The components of lease expense were as follows:

Lease Cost		Three Months Ended June 30,		2024	2023
Lease Cost		2024	2023	2024	2023
Operating lease cost	\$ 581	\$ 592	\$ 569	\$ 576	
Finance lease interest cost	6	11	6	9	
Finance lease amortization expense	129	182	265	182	
Total lease cost	\$ 716	\$ 785	\$ 840	\$ 767	

Lease Cost		Six Months Ended June 30,		2024	2023
Lease Cost		2024	2023	2024	2023
Operating lease cost	\$ 1,177	\$ 1,159	\$ 1,746	\$ 1,735	
Finance lease interest cost	12	23	18	32	
Finance lease amortization expense	129	364	394	546	
Total lease cost	\$ 1,318	\$ 1,546	\$ 2,158	\$ 2,313	

Supplemental condensed consolidated balance sheet information related to leases was as follows:

	Balance Sheet Location	June 30, 2024	December 31, 2023	Balance Sheet Location	September 30, 2024	December 31, 2023
Assets						
Finance lease assets	Property and equipment, net	\$ 373	\$ 636	Property and equipment, net	\$ 485	\$ 636
Operating lease assets	Operating lease assets, net	8,274	6,917	Operating lease assets, net	8,034	6,917
Total leased assets		\$ 8,647	\$ 7,553		\$ 8,519	\$ 7,553
Liabilities						
Current						
Current finance lease liabilities	Current portion of finance lease obligations	\$ 214	\$ 356	Current portion of finance lease obligations	\$ 175	\$ 356

Current operating lease liabilities	Current portion of operating lease obligations	1,169	1,033	Current portion of operating lease obligations	1,174	1,033
<i>Noncurrent</i>						
Long-term finance lease liabilities	Long-term finance lease liabilities, net of current portion	146	209	Long-term finance lease liabilities, net of current portion	340	209
Long-term operating lease liabilities	Long-term operating lease obligations, net of current portion	7,949	6,763	Long-term operating lease obligations, net of current portion	7,689	6,763
Total lease liabilities		<u>\$ 9,478</u>	<u>\$ 8,361</u>		<u>\$ 9,378</u>	<u>\$ 8,361</u>

Supplemental condensed consolidated statement of cash flows information for the **six nine** months ended **June 30, 2024** **September 30, 2024** related to leases was as follows:

	June 30,	June 30,	September	September
	2024	2023	2024	2023
Operating Leases				
Cash paid for amounts included in the measurement of lease liabilities	\$ 933	\$ 934	\$ 468	\$ 1,381
Property acquired under operating lease	\$ 1,923	\$ -	\$ 1,923	\$ -

Future payments of lease liabilities as of **June 30, 2024** **September 30, 2024** were as follows:

	Operating Leases	Finance Leases	Total	Operating Leases	Finance Leases	Total
2024	\$ 928	\$ 163	\$ 1,091	\$ 469	\$ 70	\$ 539
2025	1,792	106	1,898	1,809	165	1,974
2026	1,758	105	1,863	1,774	168	1,942
2027	1,470	-	1,470	1,472	60	1,532
2028	1,469	-	1,469	1,469	60	1,529
Thereafter	5,510	-	5,510	5,505	44	5,549
Total lease payments	\$ 12,927	\$ 374	\$ 13,301	\$ 12,498	\$ 567	\$ 13,065
Less: imputed interest	(3,809)	(14)	(3,519)	(3,635)	(52)	(3,687)
Present value of lease liabilities	\$ 9,118	\$ 360	\$ 9,478	\$ 8,863	\$ 515	\$ 9,378

The lease term and discount rate as of **June 30, 2024** **September 30, 2024** were as follows:

Weighted-average remaining lease term (years)

Operating leases	8.1	7.9
Finance leases	1.7	3.4

Weighted-average discount rate

Operating leases	8.0	7.8%
Finance leases	5.3	5.7%

NOTE 6. STOCK BASED AWARDS

Stock-based compensation expense was reported as follows in the condensed consolidated statements of **income** operations within general and administrative expenses of \$126 127 and \$93 80 for the three months ended **June 30, 2024** **September 30, 2024** and 2023, respectively, and \$206 334 and \$192 299 for the **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023, respectively.

Stock Options

In May 2017, the shareholders approved the 2017 Stock Incentive Plan which authorized the issuance of 350,000 shares. An additional 50,000, 175,000, 100,000 and 100,000 shares were authorized in March 2020, May 2022, May 2023 and May 2024, respectively.

We granted 1,000 and 22,000 23,000, respectively, service-based stock options during the three and **six nine** months ended **June 30, 2024** **September 30, 2024**, respectively. The weighted-average grant-date fair value of options granted during the **six nine** months ended **June 30, 2024** **September 30, 2024** was \$8.22 8.20. We granted 25,000 and 29,000 54,000, respectively, service-based stock options during the three and **six nine** months ended **June 30, 2023** **September 30, 2023**. Weighted average stock option fair value assumptions and the weighted average grant date fair value of stock options granted were as follows:

	2024	2023	2024	2023
Stock option fair value assumptions:				
Risk-free interest rate	4.40%	3.45%	4.38%	3.45%
Expected life (years)	6.0	6.5	6.0	6.5
Dividend yield	0%	0%	0%	0%
Expected volatility	58%	60%	58%	60%
Weighted average grant date fair value of stock options granted	\$ 6.47	\$ 5.67	\$ 6.49	\$ 5.67

Total compensation expense related to stock options was \$65,61 and \$121,184 for the three and six nine months ended June 30, 2024 September 30, 2024, respectively. Total compensation expense related to stock options was \$55,42 and \$123,184 for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. As of June 30, 2024 September 30, 2024, there was \$844,775 of unrecognized compensation related to stock options which will be recognized over a weighted average period of 3.8 3.6 years.

Following is the status of option activity for the six nine months ended and as of June 30, 2024 September 30, 2024:

Shares	Weighted-Average	Weighted-Average	Weighted-Average	Aggregate Intrinsic Value
	Shares	Exercise Price Per Share	Remaining Contractual Term (in years)	
Outstanding – December 31, 2023	458,700	\$ 6.63	6.53	\$ 1,432
Granted	22,000 23,000	11.06 11.08		
Exercised	(5,500)	5.42		
Forfeited	(9,600) 12,400)	10.26 10.13		
Outstanding – June 30, 2024 September 30, 2024	465,600 463,800	\$ 6.78	6.20 5.94	\$ 3,150 2,301
Exercisable on June 30, 2024 September 30, 2024	279,300 284,500	\$ 4.67 4.77	4.60 4.43	\$ 2,479 1,979

Restricted Stock Units

During the three and six month periods nine months ended June 30, 2024 September 30, 2024 and 2023, we granted 15,141 and 18,000 restricted stock units ("RSUs"), respectively, at an average grant price per share of \$11.06 and \$9.37, respectively, under our 2017 Stock Incentive Plan to non-employee directors which vest over two years. Total compensation expense related to the RSUs was \$61,66 and \$85,150 for the three and six nine months ended June 30, 2024 and 2023, September 30, 2024, respectively. Total compensation expense related to the RSUs was \$38 and \$69,113 for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. As of June 30, 2024 September 30, 2024, total unrecognized compensation expense related to the RSUs was \$220,153, which will vest over a weighted average period of 0.9 0.6 years.

Following is the status of restricted stock activity for the six nine months ended and as of June 30, 2024 September 30, 2024:

	Shares	Weighted-Average Remaining Vesting Term (in years)	Aggregate Intrinsic Value	Shares	Weighted-Average Remaining Vesting Term (in years)	Aggregate Intrinsic Value
Outstanding – December 31, 2023	27,000	1.0	\$ 254	27,000	1.0	\$ 254
Granted	15,141			15,141		
Vested	(16,500)			(16,500)		
Forfeited	(1,500)			(1,500)		
Outstanding – June 30, 2024	24,141	0.9	\$ 330	24,141	0.6	\$ 283
Outstanding – September 30, 2024						

NOTE 7. NET (LOSS) INCOME PER SHARE DATA

Basic net (loss) income per common share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding using the treasury stock method during the period. The Company's potentially dilutive common shares are those that result from dilutive common stock options and non-vested stock relating to restricted stock units. In a period where the Company incurs a net loss, the Company excludes dilutive securities, and the shares used for the basic and diluted loss per share are the same.

The calculation of diluted (loss) income per share excluded 31,611,189,265 and 45,453,93,391 in weighted average shares for the three and six months ended June 30, 2024 September 30, 2024, respectively, and 60,728,64,322 and 47,182,52,896 in weighted average shares for the three and six months ended June 30, 2023 September 30, 2023, respectively, as their effect was anti-dilutive. Basic and diluted weighted average shares outstanding were as follows:

	Three Months Ended		Six Months Ended		2024		2023		2024		2023	
	June 30,		June 30,		2024		2023		September 30,		September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Basic weighted average shares outstanding	2,760,052	2,718,066	2,751,330	2,705,121	2,760,438	2,737,895	2,754,399	2,716,166				
Dilutive effect of outstanding stock options and non-vested restricted stock units	175,619	152,782	170,783	182,192	-	150,783	176,944	171,723				
Diluted weighted average shares outstanding	2,935,671	2,870,848	2,922,113	2,887,313	2,760,438	2,888,679	2,931,343	2,887,889				

NOTE 8. INCOME TAXES

On a quarterly basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision based on the anticipated rate. As the year progresses, we refine our estimate based on the facts and circumstances, including discrete events.

Our effective tax rate for the three and **six nine** months ended **June 30, 2024** **September 30, 2024** was **12.8%** and **21.62%**, respectively. Our effective tax rate for the three and **six nine** months ended **June 30, 2023** **September 30, 2023** was **35 (21)%** and **13%**, respectively. The primary drivers of the change in rate relate to **changes in pretax book income** and **31%**. The decrease **the 2023 U.S. federal provision to return adjustments recorded in the effective tax rate is attributable to the application** **third quarter** of a valuation allowance during the three and six month periods ended June 30, 2023 and inclusion of estimated research and development tax credits in the three and six months ended June 30, 2024, **2024**, partially offset by increased taxes on foreign entities. **realization of deferred tax assets in the 2024 periods as the Company removed its valuation allowance in the fourth quarter of 2023.**

NOTE 9. RESTRUCTURING CHARGES

During the first **six nine** months of 2024, we accrued restructuring charges of **\$91.267** related to the closure and consolidation of our Blue Earth, Minnesota production facility, which is planned to be completed in the fourth quarter of 2024. There were no restructuring charges or amounts accrued in the **six nine** months ended **June 30, 2023** **September 30, 2023**.

NOTE 10. PAYROLL TAX DEFERRAL

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law which allowed for the deferral of the employer portion of social security taxes incurred through the end of calendar 2020. During the year ended December 31, 2023, the Company remitted \$1,158 to the Internal Revenue Service ("IRS") related to the deferral of payroll taxes, of which \$785 was recorded as a refund receivable as of December 31, 2023, with a corresponding liability due. These amounts were settled during the first quarter of 2024.

NOTE 11. RELATED PARTY TRANSACTIONS

David Kunin, our Chairman, is a minority owner of Abilitech Medical, Inc. We have accounts receivable related to Abilitech of \$85. **Payments of \$28 were received during the three months ended March 31, 2024.** Abilitech has ceased operations and therefore we do not believe that Abilitech will pay the Company for outstanding accounts receivable, and we have recorded a full allowance against the gross amount. The Company believes that transactions with Abilitech were on terms comparable to those that the Company could reasonably expect in an arm's length transaction with an unrelated third party.

David Kunin, our Chairman, is a minority owner (less than 10%) of Marpe Technologies, LTD an early-stage medical device company dedicated to the early detection of skin cancer through full body scanners. Mr. Kunin is also a member of the Board of Directors of Marpe Technologies. The Company has an agreement with Marpe Technologies to apply for a grant from the Israel-United States Binational Industrial Research and Development Foundation, a legal entity created by Agreement between the Government of the State of Israel and the Government of the United States of America ("BIRD Foundation"). The parties were successful in receiving approval for a \$1,000 conditional grant. The Company and Marpe Technologies will each receive \$500 from the BIRD Foundation and, among other obligations under the grant, each is required to contribute \$500 to match grant funds from the BIRD Foundation. The Company has met its obligation by providing certain services at cost or with respect to administrative services at no cost to Marpe Technologies. The total value of the Company's contribution will not exceed \$500. Marpe is engaged in raising funds for its operations, which funds are necessary to pay for the Company's services beyond its contribution. The Company will receive a 10-year exclusive right to manufacture the products of Marpe Technologies. There can be no assurances that Marpe Technologies' medical device operations will be commercially successful, that Marpe Technologies will be successful in raising additional funds to finance its operations or, if commercially successful, the Company will recover the value of services provided to Marpe if not paid when the services are provided. The transactions between the Company and Marpe Technologies have been approved by the Audit Committee pursuant to the Company Related-Party Transactions Policy. During the three and six months ended **June 30, 2024** **September 30, 2024** and 2023, we recognized net sales to Marpe Technologies of \$08 and \$670, respectively. As of June 30, 2024 During the nine months ended September 30, 2024 and December 31, 2023, 2023, we have recorded an unbilled receivable **recognized net sales to Marpe Technologies of \$21.75** and \$39, respectively, related to expected reimbursement from the BIRD Foundation and have outstanding accounts receivable of \$0 and **\$20.163**, respectively. The Company believes that transactions with Marpe are on terms comparable to those that the Company could reasonably expect in an arm's length transaction with an unrelated third party.

ITEM 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

Overview

We are a Minnesota, United States based full-service global EMS contract manufacturer in the Medical, Aerospace & Defense and Industrial markets offering a full range of value-added engineering, technical and manufacturing services and support including project management, design, testing, prototyping, manufacturing, supply chain management and post-market services. Our products are complex electromedical and electromechanical products including medical devices, wire and cable assemblies, printed circuit board assemblies, complex higher-level assemblies and other box builds for a wide range of industries. We serve three major markets within the EMS industry: Medical, Aerospace and Defense, and the Industrial market which includes industrial capital equipment, transportation, vision, agriculture, oil and gas. As of **June 30, 2024** **September 30, 2024**, we have facilities in Minnesota: Bemidji, Blue Earth, Mankato, Milaca and Maple Grove (corporate office). We also have facilities in Monterrey, Mexico and Suzhou, China. In May, 2024, we announced the closure of our Blue Earth facility by the end of 2024 and moving its operations to our Bemidji facility.

All dollar amounts are stated in thousands of U.S. dollars.

Results of Operations

Net Sales. Net sales for the three months ended **June 30, 2024** **September 30, 2024** and 2023 were **\$33,891** **\$31,407** and **\$35,021**, **\$33,369**, respectively, a decrease of **\$1,130** **\$1,962** or **3.2%** **5.9%**. Net sales for the **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023 were **\$68,106** **\$99,513** and **\$69,909**, **\$103,278**, respectively, a decrease of **\$1,803** **\$3,765** or **2.6%** **3.6%**. The following is a summary of net sales by our major industry markets:

	Three Months Ended June 30,			Three Months Ended September 30,		
	2024		2023		Increase (Decrease)	
	2024	2023	2024	2023	2024	2023
Medical	\$ 17,871	\$ 20,607	\$ (2,736)	(13.3)%	\$ 18,047	\$ 17,835
Industrial	9,385	9,059	326	3.6%	8,434	10,435
Aerospace and defense	6,635	5,355	1,280	23.9%	4,926	5,099
Total net sales	\$ 33,891	\$ 35,021	\$ (1,130)	(3.2)%	\$ 31,407	\$ 33,369

	Six Months Ended June 30,			Nine Months Ended September 30,		
	2024		2023		Increase (Decrease)	
	2024	2023	2024	2023	2024	2023
Medical	\$ 36,976	\$ 41,979	\$ (5,003)	(11.9)%	\$ 53,991	\$ 59,814
Industrial	18,977	18,531	446	2.4%	27,643	28,966
Aerospace and defense	12,153	9,399	2,754	29.3%	17,879	14,498
Total net sales	\$ 68,106	\$ 69,909	\$ (1,803)	(2.6)%	\$ 99,513	\$ 103,278

- Medical: Net sales to our medical customers decreased \$2,736, increased \$212, or **13.3%** **1.2%**, in the three months ended **June 30, 2024** **September 30, 2024** as compared with the same period in 2023, and \$5,002, decreased \$5,823, or **11.9%** **9.7%**, in the **six** **nine** months ended **June 30, 2024** **September 30, 2024** as compared with the same period in 2023. The decrease in the nine-month comparison was primarily due to inventory re-balancing with existing customers, timing of customer product launches and lower average sales prices in anticipation of moving several programs for one customer to our Monterrey, Mexico facility which will be completed in the fourth quarter of 2024.
- Industrial: Net sales to our industrial customers increased \$326, decreased \$2,001, or **3.6%** **19.2%**, in the three months ended **June 30, 2024** **September 30, 2024** as compared with the same period in 2023, and \$446, **\$1,323**, or **2.4%** **4.6%**, in the **six** **nine** months ended **June 30, 2024** **September 30, 2024** as compared with the same period in 2023. The increase **decrease** in net sales was primarily due to stronger demand industrial customer's efforts to reduce their inventory investments, delayed program launches with existing several customers as well as sales headwinds in several markets for which we provide products for these customers.
- Defense: Aerospace and defense: Net sales to our aerospace and defense customers were up \$1,280, decreased \$173, or **23.9%** **3.4%**, in the three months ended June 30, 2024 September 30, 2024, as compared with the same period in 2023, and \$2,754, increased \$3,381, or **29.3%** **23.3%** in the **six** **nine** months ended June 30, 2024 September 30, 2024, as compared with the same period in 2023. The increase in net sales in the nine-month comparison relates to increasing demand in the aerospace and defense market, and improved supply chain availability of component materials.

Backlog. Our 90-day shipment backlog as of **June 30, 2024** **September 30, 2024** was \$30,095, **\$29,631**, down **14.5%** **1.5%** from **March 31, 2024** **June 30, 2024**, and **12.2%** **12.3%** from the prior-year comparable quarter end. Our 90-day backlog consists of firm purchase orders we expect to ship in the next 90 days, with any remaining amounts to be shipped within 180 days.

Our total order backlog as of **June 30, 2024** **September 30, 2024** was \$73,296, **\$69,770**, a **14.8%** **4.8%** decrease from the prior quarter end and a **27.4%** **31.8%** decrease from the prior-year comparable quarter end. As the supply chain lead times have normalized, customers are returning to their pre-pandemic ordering practices, which has resulted in a decrease in our backlog. More recently we are also noting We continue to experience reduced visibility to revenues in the next several quarters as customers are rebalancing their inventories and, therefore, deferring the placement of some orders.

90-day shipment and total **shipment** backlog by our major industry markets are as follows:

	June 30, 2024		March 31, 2024		June 30, 2023	
	90 Day	Total	90 Day	Total	90 Day	Total
Medical	\$ 15,906	\$ 34,450	\$ 16,995	\$ 40,201	\$ 18,283	\$ 51,925
Industrial	6,398	11,423	8,200	15,184	9,702	21,037
Aerospace and defense	7,791	27,423	10,018	30,616	6,283	28,056
Total backlog	\$ 30,095	\$ 73,296	\$ 35,213	\$ 86,001	\$ 34,268	\$ 101,018

	September 30, 2024		June 30, 2024		September 30, 2023	
	90 Day	Total	90 Day	Total	90 Day	Total
Medical	\$ 15,684	\$ 35,354	\$ 15,906	\$ 34,450	\$ 16,775	\$ 51,394
Industrial	7,200	9,445	6,398	11,423	9,656	19,680
Aerospace and defense	6,747	24,971	7,791	27,423	7,337	31,260
Total backlog	\$ 29,631	\$ 69,770	\$ 30,095	\$ 73,296	\$ 33,768	\$ 102,334

The 90-day and total backlog as of **June 30, 2024** September 30, 2024 includes orders already recognized in net sales and included in the contract asset value of \$14,957, \$15,058.

Operating Costs and Expenses.

Net sales, cost of goods sold, gross profit, and operating costs were as follows:

	Three Months Ended June 30,			Three Months Ended September 30,		
	2024		2023		Increase/(Decrease)	
	\$	2024	\$	2023	\$	2024
Net sales	\$	33,891	\$	35,021	\$	(1,130)
Cost of goods sold		29,274		29,547		(273)
Gross profit		4,617		5,474		(857)
Gross margin percentage ⁽¹⁾		13.6%		15.6%		(200) bpc ⁽²⁾
Selling		909		953		(44)
% of Net sales		2.7%		2.7%		(4.7)%
General and administrative		2,982		3,105		(123)
% of Net sales		8.8%		8.9%		(4.0)%
Restructuring charges		91		-		91
% of Net sales		0.2%		-%		-%
Research and development		291		317		(26)
% of Net sales		0.9%		0.9%		(8.2)%
Operating income		344		1,099		(755)
% of Net sales		1.0%		3.1%		(68.7)%

(1) Gross margin percentage is defined as gross profit as a percentage of net sales.

(2) Basis points change in gross margin percentage.

	Six Months Ended June 30,			Nine Months Ended September 30,		
	2024		2023		Increase/(Decrease)	
	\$	2024	\$	2023	\$	2024
Net sales	\$	68,106	\$	69,909	\$	(1,803)
Cost of goods sold		58,041		58,951		(910)
Gross profit		10,065		10,958		(893)
Gross margin percentage ⁽¹⁾		14.8%		15.7%		(90) bpc ⁽²⁾
Selling		1,714		1,843		(129)
% of Net sales		2.5%		2.6%		(7.0)%
General and administrative		6,152		6,370		(218)
% of Net sales		9.0%		9.1%		(3.4)%
Restructuring charges		91		-		91
% of Net sales		0.2%		-%		-%
Research and development		609		593		16
% of Net sales		0.9%		0.8%		2.7%
Operating income		1,499		2,152		(653)
% of Net sales		2.3%		3.1%		(30.3)%

(1) Gross margin percentage is defined as gross profit as a percentage of net sales.

(2) Basis points change in gross margin percentage.

Gross profit and gross margins. Gross profit as a percent of net sales was **13.6% 12.2%** and **15.6% 15.9%** for the three months ended **June 30, 2024** **September 30, 2024** and 2023, respectively. Gross profit as a percent of net sales was **14.8% 14.0%** and **15.7% 15.8%** for the **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023, respectively. The decrease in gross profit as a percentage of net sales in the 2024 periods as compared with the same prior-year periods was the result of lower net sales, as discussed above, and corresponding lower operating leverage from reduced facility utilization, production at a number of our manufacturing facilities.

Selling expenses. Selling expenses as measured as a percent of net sales, were relatively flat decreased slightly in the three and **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023. **2023** as the result of lower incentive compensation accruals in the current-year periods.

General and administrative expenses. General and administrative expenses decreased slightly in the 2024 periods as compared with the 2023 periods as the result of lower incentive compensation accruals in the current-year periods, and, as a percent of net sales, remained relatively flat. periods.

Restructuring charges. Restructuring charges were **\$91** **\$176** and **\$267** in the three and **six nine** months ended **June 30, 2024** **September 30, 2024**, respectively, for accrued employee retention bonuses for our facility consolidation and closure of our Blue Earth facility. We expect to incur approximately \$800 of cash restructuring costs, including employee retention and facility moving cost in 2024, of which substantially all are expected to be incurred and paid by December 2024.

Operating income. Operating (loss) income for the three months ended **June 30, 2024** **September 30, 2024** and 2023 were **\$344** **(\$467)** or 1.0% (1.5)% of net sales, and **\$1,099** **\$1,124** or **3.1%** **3.4%** of net sales, respectively. Operating income for the **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023 were **\$1,499** **\$1,032** or **2.3%** **1.0%** of net sales and **\$2,152** **\$3,276** or **3.1%** **3.2%** of net sales, respectively. Decreases in both periods were driven by the decrease in net sales and resulting gross margin.

Other expense

Interest expense. Interest expense was **\$165** **\$216** and **\$125** **\$130** for the three months ended **June 30, 2024** **September 30, 2024** and 2023, respectively. Interest expense was **\$332** **\$548** and **\$235** **\$365** for the **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023, respectively. This increase was driven by higher borrowings under our line of credit arrangement. Refer to "Liquidity and Capital Resources" for further discussion of financing arrangements.

Income taxes. Our effective tax rate for the three and **six nine** months ended **June 30, 2024** **September 30, 2024** was 12% 8% and 21%. 62%, respectively. Our effective tax rate for the three and **six nine** months ended **June 30, 2023** **September 30, 2023** was 35% (21%) and 31%. 13%, respectively. The decrease primary drivers of the change in rate relate to changes in pretax book income and the 2023 U.S. federal provision to return adjustments recorded in the effective tax rate is attributable to the application third quarter of a valuation allowance during the three and six month periods ended June 30, 2023 and inclusion of estimated research and development tax credits in the three and six months ended June 30, 2024, 2024, partially offset by increased taxes on foreign entities. realization of deferred tax assets in the 2024 periods as the Company removed its valuation allowance in the fourth quarter of 2023.

Cash Flow Operating Results

The following is a summary of cash flow results:

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2024		2023	
	2024	2023	2024	2023
Cash provided by (used in):				
Operating activities	\$ (1,458)	\$ 281	\$ (3,043)	\$ 2,181
Investing activities	(1,011)	(956)	(971)	(1,121)
Financing activities	2,343	144	3,561	(2,388)
Effect of exchange rates on changes in cash and cash equivalents	(7)	(35)	17	(32)
Net change in cash and cash equivalents	\$ (133)	\$ (566)	\$ (436)	\$ (1,360)

Operating Activities. Cash used in operating activities was **\$1,458** **\$3,043** in the first **six nine** months of 2024, compared with cash provided of **\$281** **\$2,181** in the same prior-year period. Significant changes in operating assets and liabilities affecting cash flows during these periods included:

- Cash provided by accounts receivable and contract assets was **\$1,214** **\$2,150** in the **six nine** months ended **June 30, 2024** **September 30, 2024** as compared with cash usage of **\$3,200** **\$1,942** in the same prior-year period. The improved cash flow in the current year was due an expected increase in cash collections due to higher sales and the timing of customer payments in the fourth quarter of 2023 as compared with the fourth quarter of 2022, 2022, both of which impacted cash collections in the subsequent year.
- Cash used in inventory was **\$1,288** **\$922** in the **six nine** months ended **June 30, 2024** **September 30, 2024** as compared with cash provided of **\$1,350** **\$899** in the prior-year period. The increase in the current-year period cash usage was the result of normal timing variances of inventory purchases and timing of product shipments and increased inventory levels to support the transition of manufacturing from our Blue Earth facility to our Bemidji plant.

- Cash used by changes in accounts payable was **\$2,546** **\$3,609** in the current-year period as compared with cash provided **use** of **\$586** **\$1,636** in the same prior-year period, primarily related to the timing of cash payments.
- Cash provided by customer deposits was **\$1,385** **\$1,195** in the **six** **nine** months ended **June 30, 2024** **September 30, 2024** as compared with cash used **provided** of **\$195** **\$345** in the same prior-year period which is driven by timing of customer deposits received before the quarter end.

Investing Activities. Cash used in investing activities was **\$408** **\$971** in the first **six** **nine** months of 2024, compared with cash used of **\$956** **\$1,121** in the same prior-year period, both primarily for capital expenditures.

Financing Activities. Cash provided by financing activities was \$2,343 in **\$3,561** in the first **six** **nine** months of 2024, compared with cash provided used of **\$144** **\$2,388** in the same prior-year period. The increase in cash provided by financing activities resulted from the cash used for working capital in the **six** **nine** months ended **June 30, 2024** **September 30, 2024**.

Liquidity and Capital Resources

We believe that our existing financing arrangements, anticipated cash flows from operations and cash on hand will be sufficient to satisfy our working capital needs for the next twelve months, capital expenditures and debt repayments.

Credit Facility. We had a credit agreement with Bank of America, which was entered into on June 15, 2017 and provided for a line of credit arrangement of \$16,000, that was to expire on June 15, 2026.

On February 29, 2024, we replaced the asset backed line of credit agreement with a \$15,000 Senior Secured Revolving Line of Credit with Bank of America (the "Revolver"). The Revolver allows for borrowings at a defined base rate, or at the one, three or six month Secured Overnight Finance Rate, also known as "SOFR", "SOFR," plus a defined margin. If the Company prepays SOFR borrowings before their contractual maturity, the Company has agreed to compensate the bank for lost margin, as defined in the Revolver agreement. The Company is required to quarterly pay a 20-basis point fee on the unused portion of the Revolver.

The Revolver requires the Company to maintain no more than 2.5 times leverage ratio and at least a 1.25 times minimum fixed charges coverage ratio, both of which are defined in the Revolver agreement. The Company met the covenants for the period ended **June 30, 2024** **September 30, 2024**. There are no subjective acceleration clauses under the Revolver that would accelerate the maturity of outstanding borrowings. The Revolver contains certain covenants which, among other things, require the Company to adhere to regular reporting requirements, abide by shareholder dividend limitations, maintain certain financial performance, and limit the amount of annual capital expenditures. The Revolver is secured by substantially all the Company's assets and expires on February 28, 2027. We were in compliance with all the financial covenants related to this agreement as of and for the period ended **June 30, 2024** **September 30, 2024**, except for the covenant related to operating expense contributions to our Mexican operations in the first and second quarters of 2024 in excess of the amounts allowed under the Revolver. We have received a waiver of this event of default from the bank. **bank** in August 2024.

Under the amended Bank of America credit agreement signed February 29, 2024, the line of credit is subject to variations in the SOFR index rate. Under the prior credit agreement with Bank of America, the line of credit borrowing availability was restricted by a defined asset borrowing base, and interest was based on variations in the Bloomberg Short-Term Bank Yield (BSBY) index rate. Our line of credit bears interest at a weighted-average interest rate of **8.0%** **7.9%** and **8.3%** as of **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively. We had borrowings on our line of credit of **\$8,360** **\$9,550** and \$5,846 outstanding as of **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively. As of **June 30, 2024** **September 30, 2024** we had unused availability on the line of credit of \$6,440. **\$5,450**.

The Company has an interim funding agreement as of September 30, 2024 with a bank related to \$317 of deposits made on equipment purchases that will be funded through a finance lease when the equipment is received and operational. As of September 30, we have \$317 outstanding on the interim funding agreement for equipment we expect to receive in the fourth quarter of 2024.

The line of credit is shown net of debt issuance costs of \$42 and \$31 on the condensed consolidated balance sheet as of September 30, 2024 and December 31, 2023, respectively.

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet activities as defined in Item 303(a)(4) of Regulation S-K.

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Forward-Looking Statements

Those statements in the foregoing report that are not historical facts are forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

- ◆ Volatility in the marketplace which may affect market supply, demand of our products or currency exchange rates;
- ◆ Supply chain disruption and unreliability;
- ◆ Lack of supply of sufficient human resources to produce our products;
- ◆ Increased competition from within the EMS industry or the decision of OEMs to cease or limit outsourcing;
- ◆ Changes in the reliability and efficiency of our operating facilities or those of third parties;
- ◆ Increases in certain raw material costs such as copper and oil;
- ◆ Commodity and energy cost instability;
- ◆ Risks related to FDA noncompliance;
- ◆ The loss of a major customer;
- ◆ General economic, financial and business conditions that could affect our financial condition and results of operations;
- ◆ Increased or unanticipated costs related to compliance with securities and environmental regulation;
- ◆ Disruption of global or local information management systems due to natural disaster or cyber-security incident;
- ◆ Outbreaks of epidemic, pandemic, or contagious diseases, such as the recent novel coronavirus that affect our operations, our customers' operations or our suppliers' operations.

The factors identified above are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by us. Discussion of these factors is also incorporated in Part I, Item 1A, "Risk Factors," and should be considered an integral part of Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Unpredictable or unknown factors not discussed herein could also have material adverse effects on forward-looking statements. All forward-looking statements included in this Form 10-K are expressly qualified in their entirety by the forgoing cautionary statements. We undertake no obligation to update publicly any forward-looking statement (or its associated cautionary language) whether as a result of new information or future events.

Please refer to forward-looking statements and risks as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q, our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). These controls and procedures are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation of these disclosure controls and procedures as of the date of the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II**ITEM 1. LEGAL PROCEEDINGS**

We are subject to various legal proceedings and claims that arise in the ordinary course of business.

ITEM 1A. RISK FACTORS

We are affected by the risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition or operating results or could cause our actual results to differ materially from our expectations are described in our annual report on Form 10-K for the fiscal year ended under the heading "Part I – Item 1A.Risk Factors." There have been no material changes in the risk factors from those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In June 2024, the Company authorized the repurchase of \$100,000 of its Common Stock. As of **June 30, 2024** **September 30, 2024**, no 5,810 shares of Common Stock have been repurchased under this program, program at a weighted average price of \$11.95 per share totaling \$69,430.

ITEM 3. DEFAULTS ON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
32*	Certification of the Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the quarterly report on Form 10-Q for the quarter ended June 30, 2024 September 30, 2024 , formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) the Condensed Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

*Filed herewith

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Signatures

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

Nortech Systems Incorporated and Subsidiaries

Date: August 8, 2024 November 7, 2024

by

/s/ Jay D. Miller

Jay D. Miller
Chief Executive Officer and President
Nortech Systems Incorporated

Date: August 8, 2024 November 7, 2024

by

/s/ Andrew D. C. LaFrence

Andrew D. C. LaFrence
Chief Financial Officer and Senior Vice President of Finance
Nortech Systems Incorporated

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Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934

I, Jay D. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nortech Systems Incorporated and Subsidiaries;
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. The registrant's other certifying officers 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 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 the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report 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. 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.

Date: August 8, 2024 November 7, 2024

By:

/s/ Jay D. Miller

Jay D. Miller
Chief Executive Officer and President
Nortech Systems Incorporated

Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934

I, Andrew D. C. LaFrence, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nortech Systems Incorporated. and Subsidiaries;
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. The registrant's other certifying officers 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 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 the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report 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. 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.

Date: **August 8, 2024** November 7, 2024

By: _____

/s/ Andrew D. C. LaFrence

Andrew D. C. LaFrence
Chief Financial Officer and Senior Vice President of Finance
Nortech Systems Incorporated

Written Statement of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Jay D. Miller, hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended **June 30, 2024** **September 30, 2024** (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **August 8, 2024** November 7, 2024

By: _____

Jay D. Miller
Chief Executive Officer and President
Nortech Systems Incorporated

Written Statement of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Andrew D .C. LaFrence, hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2024 September 30, 2024 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2024 November 7, 2024

By: */s/ Andrew D. C. LaFrence*

Andrew D. C. LaFrence
Chief Financial Officer and Senior Vice President of Finance
Nortech Systems Incorporated

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