

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

# FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2024

OR

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

FOR THE PERIOD FROM **TO**

KEY TRONIC CORPORATION

**(Exact name of registrant as specified in its charter)**

Washington

91-0849125

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

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

**(509) 928-8000**

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of 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 such files). Yes  No

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

Large accelerated Filer  Accelerated Filer

Non-accelerated Filer  Smaller reporting company

Emerging growth company

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

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

As of May 10, 2024, 10,761,871 shares of common stock, no par value (the only class of common stock), were outstanding.

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KEY TRONIC CORPORATION

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\* Items are not applicable

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

**PART I: FINANCIAL INFORMATION**

**Item 1: Financial Statements**

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

	March 30, 2024	July 1, 2023
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,255	\$ 3,603
Trade receivables, net of allowance for doubtful accounts of \$ 85 and \$23	135,642	150,600
Contract assets	28,619	29,925
Inventories	115,115	137,911
Other	22,224	27,510
Total current assets	<u>306,855</u>	<u>349,549</u>
Property, plant and equipment, net	29,046	28,870
Operating lease right-of-use assets, net	16,790	16,202
Other assets:		
Deferred income tax asset	14,577	12,254
Other	6,109	11,397
Total other assets	<u>20,686</u>	<u>23,651</u>
Total assets	<u><u>\$ 373,377</u></u>	<u><u>\$ 418,272</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 82,198	\$ 115,899
Accrued compensation and vacation	7,071	13,351
Current portion of debt, net	5,928	7,849
Other	14,206	14,867
Total current liabilities	<u>109,403</u>	<u>151,966</u>
Long-term liabilities:		
Term loans	5,681	6,726
Revolving loan	116,512	114,805
Operating lease liabilities	11,351	10,317
Deferred income tax liability	19	274
Other long-term obligations	336	3,567
Total long-term liabilities	<u>133,899</u>	<u>135,689</u>
Total liabilities	<u>243,302</u>	<u>287,655</u>
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, no par value—shares authorized 25,000; issued and outstanding 10,762 and 10,762 shares, respectively	47,891	47,728
Retained earnings	82,184	82,986
Accumulated other comprehensive (loss)	—	(97)
Total shareholders' equity	<u>130,075</u>	<u>130,617</u>
Total liabilities and shareholders' equity	<u><u>\$ 373,377</u></u>	<u><u>\$ 418,272</u></u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
Net sales	\$ 140,527	\$ 164,553	\$ 433,707	\$ 425,524
Cost of sales	132,446	150,277	403,001	391,950
Gross profit	8,081	14,276	30,706	33,574
Research, development and engineering expenses	2,234	2,580	6,233	7,162
Selling, general and administrative expenses	6,422	6,961	18,263	18,353
Gain on insurance proceeds, net of losses	—	(396)	(431)	(4,040)
Total operating expenses	8,656	9,145	24,065	21,475
Operating income (loss)	(575)	5,131	6,641	12,099
Interest expense, net	2,800	2,688	8,772	7,081
Income (loss) before income taxes	(3,375)	2,443	(2,131)	5,018
Income tax provision (benefit)	(1,154)	467	(1,329)	924
Net income (loss)	<u><u>\$ (2,221)</u></u>	<u><u>\$ 1,976</u></u>	<u><u>\$ (802)</u></u>	<u><u>\$ 4,094</u></u>
Net income (loss) per share — Basic	<u><u>\$ (0.21)</u></u>	<u><u>\$ 0.18</u></u>	<u><u>\$ (0.07)</u></u>	<u><u>\$ 0.38</u></u>
Weighted average shares outstanding — Basic	10,762	10,762	10,762	10,762
Net income (loss) per share — Diluted	<u><u>\$ (0.21)</u></u>	<u><u>\$ 0.18</u></u>	<u><u>\$ (0.07)</u></u>	<u><u>\$ 0.38</u></u>
Weighted average shares outstanding — Diluted	10,762	10,865	10,762	10,892

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
<b>Comprehensive income (loss):</b>				
Net income (loss)	\$ (2,221)	\$ 1,976	\$ (802)	\$ 4,094
Other comprehensive income (loss):				
Unrealized gain (loss) on hedging instruments, net of tax	(191)	58	97	270
Comprehensive income (loss)	<u><u>\$ (2,412)</u></u>	<u><u>\$ 2,034</u></u>	<u><u>\$ (705)</u></u>	<u><u>\$ 4,364</u></u>

Other comprehensive income (loss) for the three months ended March 30, 2024 and April 1, 2023, is reflected net of tax expense (benefit) of approximately \$(0.1) million and \$0.0 million, respectively. Other comprehensive income (loss) for the nine months ended March 30, 2024 and April 1, 2023, is reflected net of tax expense (benefit) of approximately \$0.0 million and \$0.0 million, respectively.

See accompanying notes to consolidated financial statements.

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

	<b>Nine Months Ended</b>	
	<b>March 30, 2024</b>	<b>April 1, 2023</b>
<b>Operating activities:</b>		
Net income (loss)	\$ (802)	\$ 4,094
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	8,247	6,857
Amortization of interest rate swap	97	270
Amortization of deferred loan costs	221	85
Noncash lease expense	4,289	4,413
Inventory write-down to net realizable value	80	455
Provision for warranty	129	280
Provision for doubtful accounts	49	32
Gain on disposal of assets	(32)	(124)
Gain on insurance proceeds, net of losses	(431)	(4,040)
Share-based compensation expense	163	178
Deferred income taxes	(2,578)	(1,635)
Changes in operating assets and liabilities:		
Trade receivables	14,909	(16,083)
Contract assets	1,306	(7,925)
Inventories	22,716	971
Other assets	(1,500)	2,567
Accounts payable	(33,701)	10,657
Accrued compensation and vacation	(6,281)	(1,190)
Other liabilities	(800)	(16,961)
Cash provided by (used in) operating activities	<u>6,081</u>	<u>(17,099)</u>
<b>Investing activities:</b>		
Purchase of property and equipment	(3,398)	(4,867)
Proceeds from insurance	2,365	3,500
Cash used in investing activities	<u>(1,033)</u>	<u>(1,367)</u>
<b>Financing activities:</b>		
Payment of financing costs	(706)	—
Proceeds from issuance of long term debt	1,161	—
Repayments of long term debt	(2,214)	(1,721)
Borrowings under revolving credit agreement	403,034	447,718
Repayments of revolving credit agreement	(400,840)	(426,126)
Principal payments on finance leases	(3,831)	(3,075)
Cash (used in) provided by financing activities	<u>(3,396)</u>	<u>16,796</u>
Net increase (decrease) in cash and cash equivalents	1,652	(1,670)
Cash and cash equivalents, beginning of period	<u>3,603</u>	<u>1,707</u>
Cash and cash equivalents, end of period	<u>\$ 5,255</u>	<u>\$ 37</u>
<b>Supplemental cash flow information:</b>		
Interest payments	\$ 8,841	\$ 7,127
Income tax payments, net of refunds	\$ 1,899	\$ 817
Recognition of operating lease liabilities and right-of-use assets	\$ 3,621	\$ 5,152
Recognition of financing lease liabilities and right-of-use assets	\$ —	\$ 4,404

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
Total shareholders' equity, beginning balances	\$ 132,435	\$ 127,311	\$ 130,617	\$ 124,878
<b>Common stock (shares):</b>				
Beginning balances	10,762	10,762	10,762	10,762
Exercise of stock appreciation rights	—	—	—	—
Ending balances	10,762	10,762	10,762	10,762
<b>Common stock:</b>				
Beginning balances	\$ 47,839	\$ 47,576	\$ 47,728	\$ 47,474
Share-based compensation	52	76	163	178
Exercise of stock appreciation rights	—	—	—	—
Ending balances	47,891	47,652	47,891	47,652
<b>Retained Earnings:</b>				
Beginning balances	\$ 84,405	\$ 79,948	\$ 82,986	\$ 77,830
Net income (loss)	(2,221)	1,976	(802)	4,094
Ending balances	82,184	81,924	82,184	81,924
<b>Accumulated other comprehensive income (loss):</b>				
Beginning balances	\$ 191	\$ (213)	\$ (97)	\$ (425)
Unrealized gain (loss) on hedging instruments, net	(191)	58	97	270
Ending balances	—	(155)	—	(155)
<b>Total shareholders' equity, ending balances</b>	<b>\$ 130,075</b>	<b>\$ 129,421</b>	<b>\$ 130,075</b>	<b>\$ 129,421</b>

See accompanying notes to consolidated financial statements.

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

**1. Basis of Presentation**

The consolidated financial statements included herein have been prepared by Key Tronic Corporation and subsidiaries (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. The year-end condensed consolidated balance sheet information was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2023.

The Company's reporting period is a 52/53 week fiscal year ending on the Saturday closest to June 30. The three month and nine month periods ended March 30, 2024 and April 1, 2023, were both 13 week and 39 week periods, respectively. Fiscal year 2024 will end on June 29, 2024, which is a 52 week year. Fiscal year 2023 which ended on July 1, 2023, was also a 52 week year.

***Management's Assessment of Liquidity***

Historically, due to the timing between the procurement of raw materials, production cycle and payment from our customers, we have financed operations and met our capital expenditure requirements primarily through cash flows provided by operations and borrowings under our credit facilities. We generated an operating loss and net loss of \$(0.6) million and \$(2.2) million, respectively, during the 3-month period ended March 30, 2024, and have positive working capital of \$197.5 million as of March 30, 2024. Based on current projections, we anticipate generating cash from operations as revenue is expected to remain flat during the fourth quarter of fiscal year 2024 and decreasing working capital requirements as existing backlog is manufactured and shipped.

As of March 30, 2024, approximately \$7.1 million was available under the asset-based revolving credit facility with Bank of America, an additional MXN22.0 million (\$1.3 million USD) was available under the line of credit with Banorte Financial Group, and \$5.3 million of cash was on hand. We are also in discussions with multiple financial institutions to either extend the borrowing capacity or maturity date on our asset-based revolving credit facility or to refinance the credit facility in whole. If we are unable to meet projected operating results or restructure or refinance our asset-based revolving credit facility, we may need to delay the purchase of raw materials or require our customers to fund inventory raw material costs ahead of production. Other options to increase our liquidity include factoring receivables or leveraging foreign owned assets for additional borrowing capacity. We believe that projected cash from operations, funds available under our asset-based revolving credit facility and additional financing options will be sufficient to meet our working and fixed capital requirements for at least the next 12 months.

**2. Significant Accounting Policies**

***Reclassifications***

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

***Earnings Per Common Share***

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

***Derivative Instruments and Hedging Activities***

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

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

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

#### **Income Taxes**

The tax expense for the quarter ended March 30, 2024, and the nine months ended March 30, 2024, has been computed based on actual year-to-date results, a departure from the estimated annual effective tax rate (ETR) method applied to the quarter ended April 1, 2023, and prior quarters in fiscal year 2024. We departed from the ETR method for determining interim income tax expense because the significant permanent book-to-tax differences in several jurisdictions, the impact of the tax holiday in Vietnam, and significant tax benefits related to federal research and development tax credits resulted in an inability to reliably estimate the annual effective tax rate applicable to projected full-year worldwide consolidated pretax income. In prior quarters, including the comparable quarter ended April 1, 2023, we had computed our interim income tax provision through the use of an ETR applied to year-to-date operating results and specific events that are discretely recognized as they occur. In determining the estimated annual ETR, we analyze various factors, including projections of our annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates, and certain circumstances with respect to valuation allowances or other unusual or non-recurring tax adjustments, are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated annual ETR.

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

We utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments based on new assessments and changes in estimates and which may not accurately forecast actual outcomes. Our policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense. The tax years 2003 through the present remain open to examination by the major U.S. taxing jurisdictions to which we are subject. Refer to Note 5 for further discussions.

#### **Recently Issued Accounting Standards**

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

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07), which requires public entities to disclose information about their reportable segments' oversight and significant expenses on an interim and annual basis. The ASU is effective for the annual reporting period beginning in

fiscal year 2025 and for interim periods beginning in fiscal year 2026. Early adoption is permitted. The Company is currently evaluating the guidance and its impact to the financial statements.

In September 2022, the FASB issued ASU No. 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50). This standard requires disclosure of the key terms of outstanding supplier finance programs and a roll forward of the related obligations. The new standard does not affect the recognition, measurement or financial statement presentation of supplier finance program obligations. The ASU became effective for the Company July 2, 2023, except for the roll forward requirement, which becomes effective June 30, 2024. This ASU, except for the roll forward requirement, was adopted retrospectively as of July 2, 2023 and did not have a material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08 amending Business Combination: (Topic 805), which was necessary due to 2014-09, Revenue from Contracts with Customers (Topic 606). The FASB issued this ASU to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to (1) recognition of an acquired contract liability and (2) payment terms and their effect on subsequent revenue recognized by the acquirer. The Company adopted these amendments as of the effective date of July 2, 2023. These amendments are to be applied prospectively to business combinations occurring on or after the effective date of the amendments. The Company plans to apply the practical expedients as needed for any future acquisitions. The practical expedients cover contracts that were modified prior to acquisition date as well as determining which date an acquirer would have to determine the standalone selling price of each performance obligation in an acquired contract. This ASU did not have a material impact on our consolidated financial statements.

In March of 2020, the FASB issued ASU 2020-03, Codification Improvements to Financial Instruments, which clarifies specific issues raised by stakeholders. Specifically, the ASU clarifies the following: 1) that all entities are required to provide the fair value option disclosures in ASC 825, Financial Instruments 2) clarifies that the portfolio exception in ASC 820, Fair Value Measurement, applies to nonfinancial items accounted for as derivatives under ASC 815, Derivatives and Hedging; 3) clarifies that for purposes of measuring expected credit losses on a net investment in a lease in accordance with ASC 326, Financial Instruments - Credit Losses, the lease term determined in accordance with ASC 842, Leases, should be used as the contractual term; 4) clarifies that when an entity regains control of financial assets sold, it should recognize an allowance for credit losses in accordance with ASC 326; and 5) aligns the disclosure requirements for debt securities in ASC 320, Investments - Debt Securities, with the corresponding requirements for depository and lending institutions in ASC 942, Financial Services - Depository and Lending. The amendments in the ASU have various effective dates and transition requirements which are dependent on timing of adoption of ASU 2016-13. The Company adopted this amendment as of the effective date of July 2, 2023. This ASU did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and also issued subsequent amendments to the initial guidance: ASU 2018-19, ASU 2019-04 and ASU 2019-05, which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance is effective for the Company beginning in the first quarter of fiscal year 2024. The Company adopted this amendment as of the effective date of July 2, 2023. This ASU did not have a material impact on our consolidated financial statements.

### **3. Inventories**

Inventories as of March 30, 2024 are \$ 115.1 million compared to \$137.9 million as of July 1, 2023. Substantially all of the Company's inventory balances are raw materials.

### **4. Long-Term Debt**

On August 14, 2020, the Company entered into a loan agreement with Bank of America ("Loan Agreement"). The Loan Agreement replaced the Company's prior amended and restated credit agreement, as amended, with Wells Fargo Bank. The Loan Agreement provides for an asset-based senior secured revolving credit facility with an original availability of up to \$93 million.

On September 3, 2021, the Company entered into an amendment to the Loan Agreement, which increased the availability under the credit facility to \$120 million, subject to the Company's borrowing base, and set the maturity date to September 3, 2026. On August 26, 2022, the Company entered into a third amendment to the Loan Agreement, which removed the cash flow leverage ratio covenant and increased the interest rate by 25 basis points. On May 7, 2024, the Company executed a fourth amendment to the Loan Agreement, effective as of March 29, 2024, which amendment modified debt covenant provisions to reduce the minimum requirement for the fixed charge coverage ratio from 1.25:1.00 to 1.00:1.00 as of March 30, 2024 and allow for the add back of severance expenses incurred during the quarter ended March 30, 2024. The minimum requirement for the fixed charge coverage ratio will increase as follows: 1.05:1.00 on July 27, 2024, 1.15:1.00 on October 26, 2024, 1.20:1.00 on January 25, 2025, and 1.25:1.00 on and after March 29, 2025. In addition, the amendment increased the interest rate by 100 basis points beginning on March 29, 2024 and moved forward the maturity date by one year to September 3, 2025.

As of March 30, 2024, the Company had an outstanding balance under the asset-based revolving credit facility of \$ 112.9 million, \$0.3 million in outstanding letters of credit and \$7.1 million available for future borrowings.

As of July 1, 2023, the Company had an outstanding balance under the asset-based credit facility of \$ 115.4 million, \$0.3 million in outstanding letters of credit and \$4.6 million available for future borrowings.

Generally, the interest rate applicable to loans under the Bank of America loan agreement will be, at the Company's option: (i) the base rate which is the highest of (a) the Prime Rate for such day, (b) the Federal Funds Rate for such day plus 0.50%, and (c) Term SOFR for a one month interest period as of such day, plus 1.00% (provided that in no event shall the base rate be less than zero), plus the applicable interest margin for base rate loans; or (ii) SOFR rate for an applicable interest period, plus the applicable interest margin for SOFR rate loans. Depending on average daily excess borrowing availability over applicable periods under the Credit Facility, applicable interest margins on: (x) base rate loans will be 2.50%-3.00%; and (y) SOFR rate loans will be 3.50%-4.00%, resetting on a quarterly basis. If there is an event of default under the Loan Agreement, all loans and other obligations will bear interest at a rate of an additional 2.00% on the otherwise applicable interest rates. In addition to interest charges, the Company is required to pay a fee of 0.25% per annum on the unused portion of the Credit Facility, monthly in arrears.

As of March 30, 2024, the interest rate on the asset-based revolving credit facility with Bank of America was 8.44%.

On December 11, 2023, the Company entered into a loan agreement in Mexican peso with Banorte Financial Group. The agreement provides for a three-year secured line of credit up to MXN 100 million, subject to the Company's borrowing base, maturing on December 11, 2026. The credit facility bears interest at Itercambaria de Equilibrio Interest Rate plus 2.75%, and as of March 30, 2024, was 14.25%. As of March 30, 2024, the Company had an outstanding balance under the revolving credit facility of MXN78 million and MXN22 million available for future borrowings.

On September 19, 2023, the Company entered into a \$ 1.1 million equipment financing agreement with Ameris Bank dba Balboa Capital ("Balboa Capital"). Combining with other equipment financing agreements entered in the third quarter of fiscal year 2023, a total of \$5.5 million relates to the Company's existing manufacturing equipment that bears an interest rate range of 6% - 8% and matures in the first quarter of fiscal 2030. Under these loan agreements, equal monthly payments of \$94,000 commenced in the third quarter of fiscal year 2024 and will continue through the maturity of the equipment financing facility in the first quarter of fiscal 2030. The Company had an outstanding balance \$4.7 million as of March 30, 2024.

On November 24, 2020, the Company entered into a \$ 6.0 million equipment financing facility related to the Company's existing manufacturing equipment that bears interest at 5.52% and matures on April 24, 2026. Under this loan agreement, equal monthly payments of \$ 100,000 commenced on May 24, 2021 and will continue through the maturity of the equipment financing facility on April 24, 2026. As of March 30, 2024, the Company had an outstanding balance of \$2.5 million. As of July 1, 2023, the Company had an outstanding balance of \$ 3.4 million.

On August 14, 2020, the Company entered into a \$ 5.0 million equipment financing facility with Bank of America relating to the Company's existing U.S. manufacturing equipment that bears interest at 4.85% and matures on August 14, 2025. Under this loan agreement, equal monthly payments of approximately \$94,000 commenced on September 14, 2020 and will continue through the maturity of the equipment financing facility on August 14, 2025. As of March 30, 2024, the Company had an outstanding balance of \$1.5 million. As of July 1, 2023, the Company had an outstanding balance of \$2.3 million.

Debt maturities as of March 30, 2024 for the next five years and thereafter are as follows (in thousands):

Fiscal Years Ending	Amount
2024 <sup>(1)</sup>	\$ 763
2025	3,123
2026	114,945
2027	5,680
2028	1,032
2029 - Thereafter	816
<b>Total debt</b>	<b>\$ 126,359</b>
Unamortized debt issuance costs	(1,071)
<b>Long-term debt, net of debt issuance costs</b>	<b>\$ 125,288</b>

(1) Represents scheduled payments for the remaining three-month period ending June 29, 2024.

The Company must comply with certain financial covenants, including a fixed charge coverage ratio. As of March 30, 2024, the Company was in compliance with all financial covenants except for the fixed charge coverage ratio under the Loan Agreement. As noted above, the Company executed a fourth amendment to the Loan Agreement on May 7, 2024, effective as of March 29, 2024, to reduce the minimum requirement for the fixed charge coverage ratio from 1.25:1.00 to 1.00:1.00 as of March 30, 2024, effectively waiving the Company's default of the fixed charge coverage ratio for the quarter ended March 30, 2024.

## 5. Income Taxes

The Company expects to repatriate a portion of its foreign earnings based on increased net sales growth driving additional capital requirements domestically, cash requirements for potential acquisitions and to implement certain tax strategies. The Company currently expects to repatriate approximately \$8.1 million of foreign earnings in the future. All other unremitted foreign earnings are expected to remain permanently reinvested for planned fixed assets purchases and improvements in foreign locations.

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

The Company has available approximately \$9.8 million of gross federal research and development tax credits as of March 30, 2024. ASC 740 requires the Company to recognize in its financial statements uncertainties in tax positions taken that may not be sustained upon examination by the taxing authorities. Accordingly, as of March 30, 2024, the Company has recorded \$3.1 million of unrecognized tax benefits associated with these federal tax credits, resulting in a net deferred tax benefit of approximately \$6.7 million.

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

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

## 6. Earnings Per Share

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

	Three Months Ended	
	(in thousands, except share and per share information)	
	March 30, 2024	April 1, 2023
Net income (loss)	\$ (2,221)	\$ 1,976
Weighted average shares outstanding—basic	10,762	10,762
Effect of dilutive common stock awards	—	103
Weighted average shares outstanding—diluted	<u>10,762</u>	<u>10,865</u>
Net income (loss) per share—basic	\$ (0.21)	\$ 0.18
Net income (loss) per share—diluted	\$ (0.21)	\$ 0.18
Antidilutive SARs not included in diluted earnings per share	525	376

	Nine Months Ended	
	(in thousands, except per share information)	
	March 30, 2024	April 1, 2023
Net income	\$ (802)	\$ 4,094
Weighted average shares outstanding—basic	10,762	10,762
Effect of dilutive common stock awards	—	130
Weighted average shares outstanding—diluted	<u>10,762</u>	<u>10,892</u>
Net income per share—basic	\$ (0.07)	\$ 0.38
Net income per share—diluted	\$ (0.07)	\$ 0.38
Antidilutive SARs not included in diluted earnings per share	652	516

## 7. Share-based Compensation

The Company's incentive plan provides for equity and liability awards to employees and non-employee directors in the form of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, stock awards, stock units, performance shares, performance units, and other stock-based or cash-based awards. Compensation cost is recognized on a straight-line basis over the requisite employee service period, which is generally the vesting period, and is recorded as employee compensation expense in cost of goods sold, research, development and engineering, and selling, general and administrative expenses. Share-based compensation is recognized only for those awards that are expected to vest, with forfeitures estimated at the date of grant based on historical experience and future expectations.

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

The grant date fair value for the awards granted below were estimated using the Black-Scholes option valuation method:

	July 29, 2022
SARs Granted	145,000
Strike Price	\$ 5.10
Fair Value	\$ 2.09

Total share-based compensation expense recognized during the three months ended March 30, 2024 and April 1, 2023 was approximately \$ 52,000 and \$76,000, respectively. Total share-based compensation expense recognized during the nine months ended March 30, 2024 and April 1, 2023 was approximately \$164,000 and \$178,000, respectively.

As of March 30, 2024, total unrecognized compensation expense related to unvested share-based compensation arrangements was approximately \$ 0.2 million. This expense is expected to be recognized over a weighted average period of 1.08 years. No SARs were exercised during the three or nine months ended March 30, 2024 or April 1, 2023.

## **8. Commitments and Contingencies**

### Litigation and Other Matters

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

On May 6, 2024, we detected unauthorized third party access to portions of our information technology ("IT") systems. Upon detection of this outside threat, we activated our cyber incident procedure to investigate, contain, and remediate the incident, including beginning an investigation with external cybersecurity experts and notifying law enforcement. The incident has caused disruptions, and limitation of access, to portions of the Company's business applications supporting aspects of the Company's operations and corporate functions, including financial and operating reporting systems. As the investigation of the incident is ongoing, the full scope, nature and impact of the incident are not yet known, but based on the information reviewed to date, we believe the unauthorized activity has been contained and is working diligently to bring the impacted portions of our IT systems back online. While we do not believe the incident is reasonably likely to have a material impact on our financial condition or results of operations, we continue to investigate the incident.

### Warranties

The Company provides warranties on certain product sales. Allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product return rates and expected costs to repair or to replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from management's estimates, adjustments to recognize additional cost of sales may be required in future periods. The Company's warranty reserve was approximately \$96,000 as of March 30, 2024 and \$29,000 as of July 1, 2023.

### Gain from Insurance Recoveries, Net of Losses

Gain from insurance recoveries, net of losses, relate to losses incurred from storm damage to the Company's Arkansas facility on July 29, 2022, as the result of a lightning strike. During the nine months ended March 30, 2024, the Company recorded a gain from insurance recoveries, net of losses, of \$0.4 million. The Company did not record a gain during the three months ended March 30, 2024.

## **9. Derivative Financial Instruments**

As of March 30, 2024, the Company did not have any outstanding foreign currency forward contracts. For the three months ended March 30, 2024, the Company did not enter into foreign currency forward contracts and settled \$3.4 million of contracts. During the same period of the previous year, the Company did not enter or settle any foreign currency forward contracts.

For the nine months ended March 30, 2024, the Company entered into \$ 6.5 million of foreign currency forward contracts and settled \$6.5 million of contracts. During the same period of the previous year, the Company did not enter into or settle any foreign currency forward contracts.

On November 6, 2019, the Company entered into an interest rate swap contract with an effective date of November 6, 2019 and a termination date of September 30, 2022, related to the borrowings outstanding under the term loan with Wells Fargo Bank. This interest rate swap contract was terminated on August 14, 2020 when the Company entered into the Loan Agreement with Bank of America. On the date of termination this interest rate swap was in a liability position of \$148,400, which has been amortized to interest expense over the original term of the swap.

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

The following tables summarize the gain (loss) on derivative instruments, net of tax, on the Consolidated Statements of Operations for the three months ended March 30, 2024 and April 1, 2023, respectively (in thousands):

Derivatives Designated as Hedging Instruments	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	AOCI Balance as of December 31, 2023	Effective Portion Recorded In AOCI	Effective Portion Reclassified From AOCI Into Income	AOCI Balance as of March 30, 2024
	Cost of sales	\$ 191	\$ (191)	\$ —	\$ —
Forward contracts	Interest expense	—	—	—	—
Total		\$ 191	\$ (191)	\$ —	\$ —

Derivatives Designated as Hedging Instruments	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	AOCI Balance as of January 1, 2023	Effective Portion Recorded In AOCI	Effective Portion Reclassified From AOCI Into Income	AOCI Balance as of April 1, 2023
	Cost of sales	\$ —	\$ —	\$ —	\$ —
Forward contracts	Interest expense	(213)	—	58	(155)
Total		\$ (213)	\$ —	\$ 58	\$ (155)

The following tables summarize the gain (loss) on derivative instruments, net of tax, on the Consolidated Statements of Operations for the nine months ended March 30, 2024 and April 1, 2023, respectively (in thousands):

Derivatives Designated as Hedging Instruments	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	AOCI Balance as of July 1, 2023	Effective Portion Recorded In AOCI	Effective Portion Reclassified From AOCI Into Income	AOCI Balance as of March 30, 2024
	Cost of sales	\$ —	\$ 72	\$ (72)	\$ —
Forward contracts	Interest expense	(97)	—	97	—
Total		\$ (97)	\$ 72	\$ 25	\$ —

Derivatives Designated as Hedging Instruments	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	AOCI Balance as of July 2, 2022	Effective Portion Recorded In AOCI	Effective Portion Reclassified From AOCI Into Income	AOCI Balance as of April 1, 2023
	Cost of sales	\$ (79)	\$ —	\$ 79	\$ —
Forward contracts	Interest expense	(346)	—	191	(155)
Total		\$ (425)	\$ —	\$ 270	\$ (155)

As of March 30, 2024, the Company does not have any foreign exchange contracts with credit-risk-related contingent features. The Company is subject to the risk of fluctuating interest rates from our line of credit and foreign currency risk resulting from our China operations. The Company does not currently manage these risk exposures by using derivative instruments.

## 10. Revenue

### Revenue Recognition

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

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

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

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

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

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

During the first nine months of fiscal year 2024, no revenues were recognized from performance obligations satisfied or partially satisfied in previous periods.

#### **Contract Balances**

A contract asset is recognized when the Company has recognized revenue, but has not issued an invoice for payment. Contract assets are classified separately on the condensed consolidated balance sheet and transferred to receivables when the right to payment becomes unconditional. The following table summarizes the activity in the Company's contract assets during the nine months ended March 30, 2024 (in thousands):

<b>Contract Assets</b>	
Beginning balance, July 1, 2023	\$ 29,925
Revenue recognized	372,652
Amounts collected or invoiced	(373,958)
Ending balance, March 30, 2024	<u><u>\$ 28,619</u></u>

#### **Disaggregation of Revenue**

The following table presents the Company's revenue disaggregated for the three and nine months ended March 30, 2024 and April 1, 2023 (in thousands):

Recognition	Revenue			
	Three Months Ended		Nine Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
Over-Time	\$ 118,467	\$ 160,628	\$ 372,652	\$ 414,835
Point-in-Time	22,060	3,925	61,055	10,689
<b>Total</b>	<b>\$ 140,527</b>	<b>\$ 164,553</b>	<b>\$ 433,707</b>	<b>\$ 425,524</b>

#### **11. Leases**

The Company has several commitments under operating and financing leases for warehouses, manufacturing facilities, office buildings, and equipment with initial terms that expire at various dates during the next 1 year to 10 years.

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

For operating leases, management assumed a discount rate of 4.25%. The weighted average discount rate is disclosed in the tables below.

The components of lease cost for the three months and nine months ended March 30, 2024 and were (in thousands):

Lease cost	Classification	Three Months Ended		Nine Months Ended	
		March 30, 2024	April 1, 2023	March 30, 2024	
				April 1, 2023	2024
Operating lease cost	Cost of sales	\$ 1,199	\$ 962	\$ 3,548	\$ 3,402
Operating lease cost	Selling, general and administrative expenses	\$ 184	\$ 187	\$ 551	\$ 554
Financing lease cost	Cost of sales	\$ 1,129	\$ 1,062	\$ 3,594	\$ 2,922
Financing lease cost	Selling, general and administrative expenses	\$ 51	\$ 40	\$ 155	\$ 117
<b>Total lease cost</b>		<b>\$ 2,563</b>	<b>\$ 2,251</b>	<b>\$ 7,848</b>	<b>\$ 6,995</b>
Fixed lease cost		\$ 1,331	\$ 1,956	\$ 4,657	\$ 6,156
Short-term lease cost		\$ 1,232	\$ 295	\$ 3,191	\$ 839
<b>Total lease cost</b>		<b>\$ 2,563</b>	<b>\$ 2,251</b>	<b>\$ 7,848</b>	<b>\$ 6,995</b>

Amounts reported in the Consolidated Balance Sheet as of March 30, 2024 were (in thousands, except weighted average lease term and discount rate):

	March 30, 2024	July 1, 2023
<i>Operating Leases:</i>		
Operating lease right of use assets	\$ 16,790	\$ 16,202
Operating lease liabilities <sup>(1)</sup>	\$ 16,790	\$ 16,202
<i>Weighted-average remaining lease term (in years)</i>		
Operating leases	4.25	4.55
<i>Weighted-average discount rate</i>		
Operating leases	4.25%	4.00%
<i>Financing Leases <sup>(2)</sup>:</i>		
Financing lease right of use assets	\$ 4,610	\$ 9,718
Financing lease liabilities	\$ 3,170	\$ 8,278
<i>Weighted-average remaining lease term (in years)</i>		
Financing leases	1.23	1.89
<i>Weighted-average discount rate</i>		
Financing leases	10.88%	9.96%

(1) The current portion of the total operating lease liabilities of \$ 5.4 million is classified under *Other Current Liabilities*, resulting in \$11.4 million classified under *Operating Lease Liabilities* in the *Long-term Liabilities* section of the condensed consolidated balance sheet.

(2) The total finance lease right of use assets of \$ 4.6 million is classified under *Other Long-term Assets*. The current portion of the total finance lease liabilities of \$2.8 million is classified under *Current portion of debt, net*, resulting in \$0.3 million classified in *Other Long-term Liabilities* section of the condensed consolidated balance sheet.

Future lease payments under non-cancellable leases as of March 30, 2024 are as follows (in thousands):

Fiscal Years Ending	Operating Leases	Finance Leases
2024 <sup>(1)</sup>	\$ 1,529	\$ 1,112
2025	\$ 5,104	\$ 1,909
2026	\$ 4,147	\$ 501
2027	\$ 3,238	\$ —
2028	\$ 2,281	\$ —
Thereafter	\$ 1,873	\$ —
<b>Total undiscounted lease payments</b>	<b>\$ 18,172</b>	<b>\$ 3,522</b>
Less: present value discount	\$ (1,382)	\$ (352)
<b>Total lease liabilities</b>	<b>\$ 16,790</b>	<b>\$ 3,170</b>

(1) Represents estimated lease payments for the remaining three-month period ending June 29, 2024.

## 12. Subsequent Events

On May 6, 2024, we detected unauthorized third party access to portions of our information technology ("IT") systems. Upon detection of this outside threat, we activated our cyber incident procedure to investigate, contain, and remediate the incident, including beginning an investigation with external cybersecurity experts and notifying law enforcement. The incident has caused disruptions, and limitation of access, to portions of the Company's business applications supporting aspects of the Company's operations and corporate functions, including financial and operating reporting systems. As the investigation of the incident is ongoing, the full scope, nature and impact of the incident are not yet known, but based on the information reviewed to date, we believe the unauthorized activity has been contained and are working diligently to bring the impacted portions of our IT systems back online. While we do not believe the incident is reasonably likely to have a material impact on the Company, including our financial condition or results of operations, we continue to investigate the incident.

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

### FORWARD-LOOKING STATEMENTS

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

This Quarterly Report contains forward-looking statements in addition to historical information. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Risks and uncertainties that might cause such differences include, but are not limited to those outlined in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risks and Uncertainties that May Affect Future Results." Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to update forward-looking statements to reflect developments or information obtained after the date hereof and disclaims any obligation to do so. Readers should carefully review the risk factors described in this report and other periodic reports the Company files from time to time with the Securities and Exchange Commission, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K.

### Overview

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

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

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

#### **Executive Summary**

For the third quarter of fiscal year 2024, the Company reported total revenue of \$140.5 million, down 14.6 percent from \$164.6 million in the same period of fiscal year 2023. The decrease in revenue for the third quarter of fiscal year 2024 is partially a result of Key Tronic's facilities in Mississippi and Arkansas being offline for approximately two weeks due to severe winter weather events. We estimate that this shutdown approximated \$5 million in lost net sales. Additionally, the results are also partially due to softer demand from Mexico-based programs as previously reported throughout fiscal year 2024. The Company expects sales to Mexico-based production customers to recover in future quarters due to recently won programs, and total revenue for the nine-months ending March 30, 2024 was \$433.7 million, up 1.9% from \$425.5 million in the same period of fiscal year 2023. This increase is due to the successful ramp of new customer programs, increased production at the Company's U.S.-based and Vietnam-based facilities, and the sale of approximately \$8.1 million of inventory from a discontinued program, and is constrained by the factors described for the third quarter decrease.

As new customer programs ramp, the concentration of our top three customers' net sales decreased to 28.5 percent of total sales in the third quarter of fiscal year 2024 from 34.0 percent in the same period of the prior fiscal year. We expect that concentration to our top three customers will decrease during the fiscal year.

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

Gross profit as a percent of net sales was 5.8 percent for the third quarter of fiscal year 2024 as compared to 8.7 percent for the same quarter of the prior fiscal year. Operating income/(loss) as a percentage of net sales similarly decreased over the same period from 3.1 percent to (0.4) percent. During the third quarter of fiscal year 2024, our results were adversely impacted by incurred severance costs of approximately \$3.7 million, the severe winter weather events at the Mississippi and Arkansas facilities, and continued impacts of the strengthening of the Mexican Peso.

The net loss for the third quarter of fiscal year 2024 was \$2.2 million or \$0.21 per diluted share, as compared to net income of \$2.0 million or \$0.18 per diluted share for the third quarter of fiscal year 2023. The year-over-year decrease in earnings was a result of the factors discussed above, primarily the severance expenses associated with the workforce reduction in Mexico.

During the third quarter of fiscal year 2024, we won new programs involving energy management, consumer audio equipment, medical devices, and communication equipment, among various other programs.

Moving into the fourth quarter of fiscal year 2024, while we continue to see a favorable trend of contract manufacturing returning to North America, the strength of the Mexican peso and continued increases in Mexican wages, particularly along the US-Mexico border, have reduced the competitive advantage of Mexico-based manufacturing compared to U.S.-based manufacturing. In response to this sustained trend, the Company is restructuring its Juarez facility to focus on higher volume manufacturing, while lower volume products with higher service level requirements will migrate to our other sites, and the Company will begin to realize payroll expense reductions as a result of the severance charges incurred in the third quarter. Additionally, global logistics problems, the war in Europe, and China-U.S. geopolitical tensions continue to drive OEMs to examine their traditional outsourcing strategies. We believe these customers increasingly realize they have become overly dependent on their China-based contract manufacturers not only for products, but also for design and logistics services. The decision to onshore or near shore production appears to be becoming more widely accepted as a smart long-term strategy. As a result, we see opportunities for continued growth. In addition, the headwinds from the global supply chain continue to present uncertainty and multiple business challenges but do show some signs of gradually abating, particularly with respect to the recent price stabilization for some commodity components. At the same time, these price reductions are offset by increasing wages at our North American facilities. In the fourth quarter of fiscal year 2024, the Company sees the Mexico Peso weakening relative to the U.S. dollar which may translate into improving conditions moving forward.

We maintain a strong balance sheet with a current ratio of 2.8 and a debt-to-equity ratio of 0.98 as of March 30, 2024. Total cash provided by operating activities as defined on our cash flow statement was \$6.1 million for the nine months ended March 30, 2024. We believe we maintain sufficient liquidity for our expected future operations and had \$112.9 million in borrowings under our asset-based revolving credit facility with \$7.1 million remaining available and MXN78.0 million in borrowings under our line of credit facility with MXN22.0 million (\$1.3 million USD) remaining available as of March 30, 2024.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

- Revenue Recognition
- Inactive, Obsolete, and Surplus Inventory Valuation
- Allowance for Doubtful Accounts
- Income Taxes

Please refer to the discussion of critical accounting policies in our most recent Annual Report on Form 10-K for the fiscal year ended July 1, 2023, for further details.

## RESULTS OF OPERATIONS

### Comparison of the Three Months Ended March 30, 2024 with the Three Months Ended April 1, 2023

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

The following table sets forth certain information regarding the components of our condensed consolidated statements of operations for the three months ended March 30, 2024 as compared to the three months ended April 1, 2023. It is provided to assist in assessing differences in our overall performance (in thousands):

	Three Months Ended					
	March 30, 2024	% of net sales		April 1, 2023	% of net sales	% point change
		\$	100.0 %		\$	
Net sales	\$ 140,527		100.0 %	\$ 164,553	100.0 %	\$ (24,026)
Cost of sales	132,446		94.2 %	150,277	91.3 %	(17,831)
Gross profit	8,081		5.8 %	14,276	8.7 %	(6,195)
Research, development and engineering	2,234		1.6 %	2,580	1.6 %	(346)
Selling, general and administrative	6,422		4.6 %	6,961	4.2 %	(539)
Gain on insurance proceeds, net of losses	—		— %	(396)	(0.2)%	396
Total operating expenses	8,656		6.2 %	9,145	5.6 %	(489)
Operating income	(575)		(0.4)%	5,131	3.1 %	(5,706)
Interest expense, net	2,800		2.0 %	2,688	1.6 %	112
Income before income taxes	(3,375)		(2.4)%	2,443	1.5 %	(5,818)
Income tax provision (benefit)	(1,154)		(0.8)%	467	0.3 %	(1,621)
Net (loss) income	\$ (2,221)		(1.6)%	\$ 1,976	1.2 %	\$ (4,197)
						(2.8)%

#### Net Sales

Net sales of \$140.5 million for the third quarter of fiscal year 2024 decreased by 14.6 percent as compared to net sales of \$164.6 million for the third quarter of fiscal year 2023.

The \$24.0 million decrease in net sales from the prior year period was partially due to constraints from the unanticipated lost production capacity for approximately two weeks at the Company's Mississippi and Arkansas facilities due to severe winter weather events. We estimate that this shutdown approximated \$5 million of lost net sales. Additionally, the results are due to the softening of demand from Mexico based programs which caused decreases in backlog early in fiscal year 2024.

#### Gross Profit

Gross profit as a percentage of net sales for the three months ended March 30, 2024 was 5.8 percent compared to 8.7 percent for the three months ended April 1, 2023. These results were adversely impacted by incurred severance costs of approximately \$3.7 million, the severe winter weather events at the Mississippi and Arkansas facilities, and continued impacts of the strengthening Mexican Peso.

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

Included in gross profit are charges related to reductions in the carrying value of our inventory due to obsolescence. We recorded an impairment of approximately \$78,000 and \$100,000 for obsolete inventory during the three months ended March 30, 2024 and April 1, 2023, respectively. We adjust the carrying value for estimated obsolescence as necessary in an amount equal to the difference between the cost of inventory and its net realizable value based on assumptions as to future demand and market conditions. The provisions are established for inventory that we have determined customers are not contractually responsible for and for inventory that we believe customers will be unable to purchase.

### **Operating Expenses**

There were no significant changes to operating expenses during the presented quarters. Total research, development, and engineering (RD&E) expenses were \$2.2 million during the three months ended March 30, 2024 and \$2.6 million during the three months ended April 1, 2023, respectively. Total RD&E expenses as a percent of net sales were 1.6 percent during the three months ended March 30, 2024 and 1.6 percent during the three months ended April 1, 2023.

Total selling, general and administrative (SG&A) expenses were \$6.4 million during the three months ended March 30, 2024 compared to \$7.0 million for the three months ended April 1, 2023. Total SG&A expenses as a percentage of net sales were 4.6 percent for the three months ended March 30, 2024 and 4.2 percent for the three months ended April 1, 2023.

### **Interest**

There were no significant changes to interest expenses in the presented quarters. Interest expense was \$2.8 million during the three months ended March 30, 2024 and \$2.7 million during the three months ended April 1, 2023.

### **Income Taxes**

The effective tax rate for the three months ended March 30, 2024 was 34.2 percent compared to 19.1 percent for the three months ended April 1, 2023. The increase was primarily due to federal research and development tax credits and permanent book-to-tax differences relative to the respective pretax income (or loss) amounts of each period.

The company has departed from the annual effective tax rate method for determining interim income tax expense. The existence of significant permanent book-to-tax differences in several jurisdictions, the impact of the tax holiday in Vietnam, and significant tax benefits related to federal research and development tax credits resulted in an inability to reliably estimate the annual effective tax rate applicable to projected full-year worldwide consolidated pre-tax income. Accordingly, the company determined income tax expense for the quarter ended March 30, 2024, and the nine months ended March 30, 2024, based on actual year-to-date results. For further information on taxes see Note 5 - "Income Taxes" of the Notes to Consolidated Financial Statements.

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

### **Comparison of the Nine Months Ended March 30, 2024 with the Nine Months Ended April 1, 2023**

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

The following table sets forth certain information regarding the components of our condensed consolidated statements of operations for the nine months ended March 30, 2024 as compared to the nine months ended April 1, 2023. It is provided to assist in assessing differences in our overall performance (in thousands):

	Nine Months Ended					
	March 30, 2024	% of net sales	April 1, 2023	% of net sales	\$ change	% point change
Net sales	\$ 433,707	100.0 %	\$ 425,524	100.0 %	\$ 8,183	— %
Cost of sales	403,001	92.9 %	391,950	92.1 %	11,051	0.8 %
Gross profit	30,706	7.1 %	33,574	7.9 %	(2,868)	(0.8) %
Research, development and engineering	6,233	1.4 %	7,162	1.7 %	(929)	(0.3) %
Selling, general and administrative	18,263	4.2 %	18,353	4.3 %	(90)	(0.1) %
Gain on insurance proceeds, net of losses	(431)	(0.1) %	(4,040)	(0.9) %	3,609	0.8 %
Total operating expenses	24,065	5.5 %	21,475	5.1 %	2,590	0.4 %
Operating income	6,641	1.5 %	12,099	2.8 %	(5,458)	(1.3) %
Interest expense, net	8,772	2.0 %	7,081	1.7 %	1,691	0.3 %
Income (loss) before income taxes	(2,131)	(0.5) %	5,018	1.2 %	(7,149)	(1.7) %
Income tax provision	(1,329)	(0.3) %	924	0.2 %	(2,253)	(0.5) %
Net (loss) income	\$ (802)	(0.2) %	\$ 4,094	1.0 %	\$ (4,896)	(1.2) %

#### **Net Sales**

Net sales of \$433.7 million for the nine months ended March 30, 2024 increased by 1.9 percent as compared to net sales of \$425.5 million for the nine months ended April 1, 2023.

The \$8.2 million increase in net sales from the prior year period was primarily due to the successful ramp of new customer programs, increased production at the Company's U.S.-based and Vietnam-based facilities, and the sale of approximately \$8.1 million of inventory from a discontinued program. However, the Company's revenue was constrained by unanticipated lost production capacity for approximately two weeks at the Company's Mississippi and Arkansas facilities due to severe winter weather events.

#### **Gross Profit**

Gross profit as a percentage of net sales for the nine months ended March 30, 2024 was 7.1 percent compared to 7.9 percent for the nine months ended April 1, 2023. This 0.8 percent decrease was primarily a result of the severance charges recorded during the third quarter partially offset by gains related to the temporary closure of our Juarez production facility in the second quarter.

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

Included in gross profit are charges related to reductions in the carrying value of our inventory due to obsolescence. We recorded an impairment of approximately \$80,000 and \$455,000 for obsolete inventory during the nine months ended March 30, 2024 and April 1, 2023, respectively. We adjust the carrying value for estimated obsolescence as necessary in an amount equal to the difference between the cost of inventory and its net realizable value based on assumptions as to future demand and market conditions. The provisions are established for inventory that we have determined customers are not contractually responsible for and for inventory that we believe customers will be unable to purchase.

#### **Operating Expenses**

Total research, development, and engineering (RD&E) expenses were \$6.2 million during the nine months ended March 30, 2024 and \$7.2 million during the nine months ended April 1, 2023, respectively. The decrease relates to salary expense during the year. Total RD&E expenses as a percent of net sales were 1.4 percent during the nine months ended March 30, 2024 and 1.7 percent during the nine months ended April 1, 2023.

Total selling, general and administrative (SG&A) expenses were \$18.3 million during the nine months ended March 30, 2024 compared to \$18.4 million for the nine months ended April 1, 2023. Total SG&A expenses as a percentage of net sales were 4.2 percent for the nine months ended March 30, 2024 and 4.3 percent for the nine months ended April 1, 2023.

#### **Interest**

Interest expense was \$8.8 million during the nine months ended March 30, 2024 and \$7.1 million during the nine months ended April 1, 2023. The increase in interest expense is primarily related to increased interest rates and an increase in the average balance outstanding on our line of credit.

#### **Income Taxes**

The effective tax rate for the nine months ended March 30, 2024 was 62.4 percent compared to 18.4 percent for the nine months ended April 1, 2023. The increase was primarily due to federal research and development tax credits and permanent book-to-tax differences relative to the respective pretax income (or loss) amounts of each period.

The company has departed from the annual effective tax rate method for determining interim income tax expense. The existence of significant permanent book-to-tax differences in several jurisdictions, the impact of the tax holiday in Vietnam, and significant tax benefits related to federal research and development tax credits resulted in an inability to reliably estimate the annual effective tax rate applicable to projected full-year worldwide consolidated pre-tax income. Accordingly, the company determined income tax expense for the quarter ended March 30, 2024, and the nine months ended March 30, 2024, based on actual year-to-date results. For further information on taxes see Note 5 - "Income Taxes" of the Notes to Consolidated Financial Statements.

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

#### **BACKLOG**

On March 30, 2024, we had an order backlog of approximately \$275.8 million. This compares with a backlog of approximately \$380.6 million on April 1, 2023. The decrease in order backlog is related to some softening on demand for a number of our Mexico-based programs, partially offset by an increase in demand for our U.S. based facilities. Order backlog consists of purchase orders received for products expected to be shipped within the next 12 months, although shipment dates are subject to change due to design modifications or changes in other customer requirements. Order backlog should not be considered an accurate measure of future net sales.

#### **CAPITAL RESOURCES AND LIQUIDITY**

##### Operating Cash Flow

Net cash provided by operating activities for the nine months ended March 30, 2024 was \$6.1 million. Net cash used in operating activities was \$17.1 million for the nine months ended April 1, 2023.

The \$6.1 million of net cash provided by operating activities for the nine months ended March 30, 2024 is primarily related to \$0.8 million in net loss for the period adjusted for \$8.2 million of depreciation and amortization, a \$14.9 million decrease in accounts receivable, a \$22.7 million decrease in inventory, a \$1.3 million decrease in contract assets partially offset by a \$1.5 million increase in other assets, a \$6.3 million decrease in accrued compensation and vacation, a \$33.7 million decrease in accounts payable, and a \$0.8 million decrease in other liabilities.

The \$17.1 million of net cash used in operating activities for the nine months ended April 1, 2023 is primarily related to \$4.1 million in net income for the period adjusted for \$6.9 million of depreciation and amortization, a \$10.7 million increase in accounts payable, a \$1.0 million decrease in inventory, a \$2.6 million decrease in other assets, partially offset by a 17.0 million decrease in other liabilities, a \$1.2 million decrease in accrued compensation and vacation, a \$16.1 million increase in accounts receivable, and a \$7.9 million increase in contract assets.

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

##### Investing Cash Flow

Cash used in investing activities was \$1.0 million during the nine months ended March 30, 2024 as compared to \$1.4 million during the nine months ended April 1, 2023. Our primary investing activity during the nine months ended March 30, 2024 and April 1, 2023, was purchasing equipment to support increased production levels for new programs.

Leases are often utilized when potential technical obsolescence and funding requirement advantages outweigh the benefits of equipment ownership. Total capital expenditures are expected to be \$5 million during the fiscal year, a significant portion of which may be funded through finance leases. Capital expenditures and periodic lease payments are expected to be financed with internally generated funds as well as our revolving line of credit facility and equipment term loans.

#### Financing Cash Flow

Cash used in financing activities was \$3.4 million during the nine months ended March 30, 2024 as compared to \$16.8 million provided by financing activities in the same period of the previous fiscal year. Our primary financing activities during the nine months ended March 30, 2024 and nine months ended April 1, 2023, were borrowings and repayments under our asset-based revolving line of credit facility with Bank of America (the "Loan Agreement") and term loans.

As of March 30, 2024, the Company was not in compliance with the fixed charge coverage ratio under the Loan Agreement. As a result the Company executed a fourth amendment to the Loan Agreement on May 7, 2024, effective as of March 29, 2024, to reduce the minimum requirement for the fixed charge coverage ratio from 1.25:1.00 to 1.00:1.00 as of March 30, 2024, and allow for the add back of severance expenses incurred during the quarter ended March 30, 2024, effectively waiving the Company's default of the fixed charge coverage ratio for the quarter ended March 30, 2024. The minimum requirement for the fixed charge coverage ratio will increase as follows: 1.05:1.00 on July 27, 2024, 1.15:1.00 on October 26, 2024, 1.20:1.00 on January 25, 2025, and 1.25:1.00 on and after March 29, 2025. In addition, the amendment increased the interest rate by 100 basis points beginning on March 29, 2024, and moved forward the maturity date by one year to September 3, 2025. As of March 30, 2024, approximately \$7.1 million was available under the asset-based revolving credit facility and MXN22.0 million was available under our line of credit facility in Mexico. See Note 4 - "Long-Term Debt" of the Notes to Consolidated Financial Statements for additional information.

Our cash requirements are affected by the level of current operations and new programs. We are in discussions with multiple financial institutions to either extend the borrowing capacity or maturity date on our Loan Agreement or to refinance the Loan Agreement in whole. If we are unable to meet projected operating results or restructure or refinance our Loan Agreement, we may need to delay the purchase of raw materials or require our customers to fund inventory raw material costs ahead of production. The Company further notes projected cash from operations from increased demand from certain customers will be partially offset by an anticipated slowdown in collections from other customers and increasing inventory levels in efforts to mitigate supply chain constraint risks. Other options to increase our liquidity include factoring receivables or leveraging foreign owned assets for additional borrowing capacity. We believe that projected cash from operations, funds available under the Loan Agreement and Banorte line of credit, and leasing capabilities will be sufficient to meet our working and fixed capital requirements for at least the next 12 months.

As of March 30, 2024, we had approximately \$3.8 million of cash held by foreign subsidiaries. If cash is to be repatriated in the future from these foreign subsidiaries, the Company would be subject to certain withholding taxes in the foreign jurisdictions. The total amount of tax payments required for the amount of foreign subsidiary cash on hand as of March 30, 2024 would approximate \$35,000. We have accrued withholding taxes for expected future repatriation of foreign earnings as discussed in Note 5 of the "Notes to Consolidated Financial Statements."

#### **OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

We have included a summary of our Contractual Obligations in our annual report on Form 10-K for the fiscal year ended July 1, 2023. There have been no material changes in contractual obligations outside the ordinary course of business since July 1, 2023 except for the outstanding balance of the asset-based credit facility has moved from fiscal year 2027 to fiscal year 2026, which was \$112.9 million as of March 30, 2024. See Note 4 - "Long-Term Debt" of the Notes to Consolidated Financial Statements for additional information.

## RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

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

### RISKS RELATED TO OUR BUSINESS AND STRATEGY

#### ***Our operations may be subject to certain risks.***

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

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

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

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

#### ***We may experience fluctuations in quarterly results of operations.***

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

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

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

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

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

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

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

***The majority of our sales come from a small number of customers, and a decline in sales to, or an inability to enforce contracts with, any of these customers could adversely affect our business.***

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

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

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

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

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

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

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

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

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

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

Global economic and political events, including as a result of COVID-19, significant currency exchange fluctuations can occur causing unexpected losses. Future temporary closures of production facilities in Mexico could also cause significant changes in our ability to qualify for hedge accounting treatment of our forward contracts to hedge foreign currency fluctuations.

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

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

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

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

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

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

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

production can lead to excess inventory on hand which may or may not be reimbursed by our customers even when under contract.

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

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

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

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

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

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

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

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

***Energy price increases may negatively impact our results of operations.***

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

## **TECHNOLOGY RISKS**

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

We are increasingly dependent on digital technologies and services to conduct our operations. We use these technologies for internal purposes, including data storage, processing and transmissions, as well as in our interactions with vendors and

customers. Digital technologies and services are subject to the risk of cybersecurity incidents and some incidents can remain undetected for a period of time.

We routinely monitor our systems for cyber threats and believe we have sufficient processes in place to detect and remediate vulnerabilities. Nevertheless, we have experienced attempted security breaches, such as phishing emails and other targeted attacks. For example, as previously disclosed in our Form 8-K filed with the SEC on May 10, 2024, we became aware of unauthorized access to our IT systems (the "Previously Disclosed Cyber Incident"). We expect that our operations will continue to be subject to cyber threats, and any cybersecurity incident could significantly disrupt our operations.

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

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

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

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

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

**RISKS RELATED TO CAPITAL AND FINANCING**

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

There is no assurance that we will be able to retain or renew our credit agreements in the future on terms acceptable to us, or at all. In addition, we have restrictive covenants with our financial institutions which could impact how we manage our business. We have not always met these covenants in the past and have had to obtain waivers and amend our credit agreements, including for fiscal quarter ended March 30, 2024, to adjust these covenants. The amendment for fiscal quarter ended March 30, 2024 resulted in an increase in interest rates and shortened the maturity date to September 3, 2025. We may not meet these covenants in the future and may not be able to obtain waivers or amendments from the relevant lenders on terms acceptable to us, or at all. In addition, if we cannot meet our financial covenants, our borrowings could become immediately payable which could have a material adverse impact on our financial statements. For a summary of our debt obligations, see Note 4 - "Long-Term Debt" of the Notes to Consolidated Financial Statements.

In addition, the event our business grows rapidly or there is uncertainty in the macroeconomic climate, additional financing resources could be necessary in the current or future fiscal years. There is no assurance that we will be able to obtain equity or debt financing at acceptable terms, or at all, in the future.

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

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

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

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

***Our stock price is volatile.***

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

**RISKS RELATED TO OUR CONTROLS AND PROCEDURES AND THE INTERNAL INVESTIGATION**

***If we fail to maintain proper and effective internal controls, our business and financial condition could be materially adversely impacted.***

We have previously identified a material weakness in our internal control over financial reporting, and undertook remediation efforts to address the identified deficiencies and concluded that the material weakness was remediated as of July 3, 2021. If other deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results and incur the additional costs and expenses associated therewith. Moreover, because of the inherent limitations of any control system, material misstatements due to error or fraud may not be prevented or detected on a timely basis, or at all. As of July 2, 2023, we are a non-accelerated filer under the Exchange Act and are not required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). Therefore, our internal controls over financial reporting will not receive the level of review provided by the process relating to the auditor attestation included in annual reports of issuers that are subject to the auditor attestation requirements.

If we are unable to provide reliable and timely financial reports in the future, our business and reputation may be further harmed. Restated financial statements and failures in internal controls may also cause us to fail to meet additional reporting obligations, negatively affect investor confidence in our management and the accuracy of our financial statements and disclosures, or result in adverse publicity and concerns from investors, any of which could have a negative effect on the price of our common stock, subject us to regulatory investigations and penalties or stockholder litigation, and materially adversely impact our business, financial condition, results of operations and cash flows.

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

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

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

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

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

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

#### **LEGAL AND ACCOUNTING RISKS**

***We are involved in various legal proceedings.***

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

Accordingly, the resolution or adjudication of such disputes, even those encountered in the ordinary course of business, could have a material effect on our business, consolidated financial conditions and results of operations.

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

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

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

Our consolidated financial statements are prepared in conformity with accounting standards generally accepted in the United States, or U.S. GAAP. These principles are subject to amendments made primarily by the Financial Accounting Standards Board (FASB) and the SEC. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions which are completed before a change is announced. Changes to accounting rules or challenges to our interpretation or application of the rules by regulators may have a material adverse effect on our reported financial results or on the way we conduct business.

#### **GENERAL RISKS**

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

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

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

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

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk**

We are subject to the risk of fluctuating interest rates in the normal course of business. Our major market risk relates to our secured debt. Our asset-based senior secured revolving credit facility, line of credit facility and equipment financing facility are secured by substantially all of our assets. The interest rates applicable to our asset-based senior secured revolving credit facility fluctuate with SOFR rates. The interest rates applicable to our asset-based secured line of credit facility fluctuate with Itercambaria de Equilibrio Interest Rate. There was outstanding \$112.9 million in borrowings under our asset-based senior secured revolving credit facility, MXN78.0 million outstanding in borrowing under our asset-based secured line of credit facility, and \$6.7 million outstanding on our equipment financing facilities as of March 30, 2024,

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

**Foreign Currency Exchange Risk**

A significant portion of our operations are in foreign locations. As a result, transactions occur in currencies other than the U.S. dollar. Exchange rate fluctuations among other currencies used by us would directly or indirectly affect our financial results. From time to time, we use Mexican Peso forward contracts to hedge foreign currency fluctuations for a portion of our Mexican Peso denominated expenses. There were no foreign currency forward contracts outstanding as of March 30, 2024. See Note 9 - "Derivative Financial Instruments" to the Notes to Consolidated Financial Statements for additional information regarding our derivative instruments.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

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

Based on our assessment, we believe that as of March 30, 2024, the Company's disclosure controls and procedures are effective based on that criteria.

## **Changes in Internal Control over Financial Reporting**

There have been no significant changes in our internal controls over financial reporting during the three months ended March 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)).

## **PART II. OTHER INFORMATION:**

### **Item 1. Legal Proceedings**

We are involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

### **Item 1A. Risk Factors**

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

### **Item 5. Other Information**

#### **Insider Trading Arrangements**

During the fiscal quarter ended March 30, 2024, none of the Company's directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement", as defined in Regulation S-K, Item 408.

<b>Item 6.</b>	<b>Exhibits</b>
3.1	<a href="#">Articles of Incorporation, incorporated by reference to the Company's Form 10-K for the fiscal year ended July 3, 2021</a>
3.2	<a href="#">Bylaws, as amended, incorporated by reference to the Company's Form 10-K for the fiscal year ended July 3, 2021</a>
31.1	<a href="#">Certification of Chief Executive Officer (Exchange Act Rules 13(a)-14 and 15(d)-14)</a>
31.2	<a href="#">Certification of Chief Financial Officer (Exchange Act Rules 13(a)-14 and 15(d)-14)</a>
32.1	<a href="#">Certification of Chief Executive Officer (18 U.S.C. 1350)</a>
32.2	<a href="#">Certification of Chief Financial Officer (18 U.S.C. 1350)</a>
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.INS, 101.SCH, 101.CAL, 101.DEF, 101.LAB and 101.PRE)

SIGNATURES

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

KEY TRONIC CORPORATION

/s/ CRAIG D. GATES

**Craig D. Gates**

Date:

**May 14, 2024**

**President and Chief Executive Officer**  
(Principal Executive Officer)

/s/ BRETT R. LARSEN

**Brett R. Larsen**

Date:

**May 14, 2024**

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

## CERTIFICATION

I, Craig D. Gates, certify that:

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

Dated: May 14, 2024

/s/ Craig D. Gates

Craig D. Gates

President and Chief Executive Officer

## CERTIFICATION

I, Brett R. Larsen, certify that:

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

Dated: May 14, 2024

/s/ Brett R. Larsen

Brett R. Larsen

Executive Vice President of Administration,  
Chief Financial Officer and Treasurer

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

In connection with the Quarterly Report of Key Tronic Corporation (the "Company") on Form 10-Q for the period ended March 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Craig D. Gates, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: May 14, 2024

/s/ Craig D. Gates

Craig D. Gates

President and Chief Executive Officer

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

In connection with the Quarterly Report of Key Tronic Corporation (the "Company") on Form 10-Q for the period ended March 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Brett R. Larsen, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: May 14, 2024

/s/ Brett R. Larsen

Brett R. Larsen

Executive Vice President of Administration,  
Chief Financial Officer and Treasurer