REFINITIV

DELTA REPORT

10-Q

NSYS - NORTECH SYSTEMS INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	766
CHANGES	78
DELETIONS	347
ADDITIONS	341

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023 March 31, 2024

OR

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

For the transition period from to

NORTECH SYSTEMS INCORPORATED

Commission file number **0-13257**

State of Incorporation: **Minnesota**

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $.01 per share	NSYS	NASDAQ Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-accelerated Filer ☒	Smaller Reporting Company ☒
Emerging growth 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 ☒

Number of shares of $.01 par value common stock outstanding at November 3, 2023 as of May 6, 2024 was 2,739,377. 2,756,677.

TABLE OF CONTENTS

PART I -– FINANCIAL INFORMATION

PAGE

PART

ITEM 1. FINANCIAL STATEMENTS

ITEM 1. FINANCIAL STATEMENTS

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS INCOME AND COMPREHENSIVE INCOME

(UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2023	2022	2023	2022
Net Sales	$ 33,369	$ 35,276	$ 103,278	$ 98,505

Cost of Goods Sold	28,050	28,948	87,001	83,129
Gross Profit	5,319	6,328	16,277	15,376
Operating Expenses				
Selling Expenses	923	959	2,766	2,752
General and Administrative Expenses	2,958	2,949	9,328	8,346
Research and Development Expenses	314	475	907	1,154
Gain on Sale of Assets	-	-	-	(15)
Total Operating Expenses	4,195	4,383	13,001	12,237
Income From Operations	1,124	1,945	3,276	3,139
Other Expense				
Interest Expense	(130)	(122)	(365)	(337)
Income Before Income Taxes	994	1,823	2,911	2,802
Income Tax (Benefit) Expense	(213)	289	389	411
Net Income	$ 1,207	$ 1,534	$ 2,522	$ 2,391
Net Income Per Common Share:				
Basic (in dollars per share)	$ 0.44	$ 0.57	$ 0.93	$ 0.89
Weighted Average Number of Common Shares Outstanding - Basic (in shares)	2,737,895	2,686,884	2,716,166	2,683,594
Diluted (in dollars per share)	$ 0.42	$ 0.53	$ 0.87	$ 0.83
Weighted Average Number of Common Shares Outstanding - Diluted (in shares)	2,888,679	2,899,526	2,887,889	2,886,073
Other comprehensive income				
Foreign currency translation	(77)	(365)	(318)	(604)

Comprehensive income, net of tax	$ 1,130	$ 1,169	$ 2,204	$ 1,787

	THREE MONTHS ENDED MARCH 31,	
	2024	2023
Net sales	$ 34,215	$ 34,888
Cost of goods sold	28,767	29,404
Gross profit	5,448	5,484
Operating expenses:		
Selling expenses	805	890
General and administrative expenses	3,170	3,265
Research and development expenses	318	276
Total operating expenses	4,293	4,431
Income from operations	1,155	1,053
Other expense		
Interest expense	(167)	(110)
Total other expense	(167)	(110)
Income before income taxes	988	943
Income tax expense	223	262
Net income	$ 765	$ 681
Income per common share:		
Basic	$ 0.28	$ 0.25
Weighted average number of common shares outstanding - basic	2,742,511	2,692,033
Diluted	$ 0.26	$ 0.23
Weighted average number of common shares outstanding - dilutive	2,908,457	2,903,635
Other comprehensive income		
Foreign currency translation (loss) gain	(183)	40
Comprehensive income, net of tax	$ 582	$ 721

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements Statements.

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2024 AND DECMEBER 31, 2023

(IN THOUSANDS, EXCEPT SHARE DATA)

	SEPTEMBER 30, 2023	DECEMBER 31, 2022(1)
	(Unaudited)	
ASSETS		
Current Assets		
Cash	$ 699	$ 1,027
Restricted Cash	422	1,454
Accounts Receivable, less allowances of $316 and $334	15,956	15,975
Employee Retention Credit Receivable	-	2,650
Inventories, Net	21,467	22,438
Contract Assets, less allowances of $22 and $0	11,746	9,982
Income Taxes Receivable	388	-
Prepaid Expenses	1,916	1,334
Total Current Assets	52,594	54,860
Property and Equipment, Net	6,135	6,408
Operating Lease Assets	6,955	7,850
Other Intangible Assets, Net	303	422
Total Assets	$ 65,987	$ 69,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		

Current Portion of Finance Lease Obligations	$ 401	$ 390
Current Portion of Operating Lease Obligations	996	1,155
Accounts Payable	13,099	14,792
Accrued Payroll and Commissions	3,976	4,803
Income Taxes Payable	27	733
Customer Deposits	3,861	3,515
Other Accrued Liabilities	839	1,010
Total Current Liabilities	23,199	26,398
Long-Term Liabilities		
Long Term Line of Credit	4,611	6,853
Long Term Finance Lease Obligations, Net	261	565
Long-Term Operating Lease Obligations, Net	6,835	7,549
Deferred Income Taxes	278	-
Other Long-Term Liabilities	95	95
Total Long-Term Liabilities	12,080	15,062
Total Liabilities	35,279	41,460
Commitments and Contingencies		
Shareholders' Equity		
Preferred Stock, $1 par value; 1,000,000 Shares Authorized: 250,000 Shares Issued and Outstanding	250	250
Common Stock - $0.01 par value; 9,000,000 Shares Authorized: 2,739,377 and 2,690,633 Shares Issued and Outstanding, respectively	27	27
Additional Paid-In Capital	16,801	16,347
Accumulated Other Comprehensive Loss	(688)	(370)
Retained Earnings	14,318	11,826
Total Shareholders' Equity	30,708	28,080
Total Liabilities and Shareholders' Equity	$ 65,987	$ 69,540

	MARCH 31, 2024	**DECEMBER 31, 2023(1)**
ASSETS		

Current assets:				
Cash	$	4,028	$	960
Restricted cash		-		715
Accounts receivable, less allowances of $292 and $358, respectively		16,051		19,279
Inventories, net		22,951		21,660
Contract assets		14,194		14,481
Prepaid assets and other assets		1,892		1,698
Total current assets		59,116		58,793
Property and equipment, net		6,134		6,513
Operating lease assets, net		7,339		6,917
Deferred tax assets		2,640		2,641
Other intangible assets, net		223		263
Total assets	$	75,452	$	75,127
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of finance lease obligations	$	296	$	356
Current portion of operating lease obligations		1,235		1,033
Accounts payable		15,217		15,924
Accrued payroll and commissions		4,771		4,138
Customer deposits		3,139		4,068
Other accrued liabilities		1,063		1,063
Total current liabilities		25,721		26,582
Long-term liabilities:				
Long-term line of credit		6,170		5,815
Long-term finance lease obligations, net of current portion		168		209
Long-term operating lease obligations, net of current portion		6,977		6,763
Other long-term liabilities		410		414
Total long-term liabilities		13,725		13,201
Total liabilities		39,446		39,783
Shareholders' equity:				
Preferred stock, $1 par value; 1,000,000 shares authorized; 250,000 shares issued and outstanding		250		250

Common stock - $0.01 par value; 9,000,000 shares authorized; 2,755,178 and 2,740,178 shares issued and outstanding, respectively	27	27
Additional paid-in capital	17,009	16,929
Accumulated other comprehensive loss	(715)	(532)
Retained earnings	19,435	18,670
Total shareholders' equity	36,006	35,344
Total liabilities and shareholders' equity	$ 75,452	$ 75,127

(1) The balance sheet at December 31, 2022 has been derived from the audited financial statements at that date

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements Statements.

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

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30	
	2023	**2022**
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net Income	$ 2,522	$ 2,391
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	1,539	1,440
Compensation on Stock-Based Awards	299	234
Deferred Income Taxes	288	-

Change in Inventory Reserves	(8)	(54)
Other, Net	(169)	(86)
Changes in Current Operating Items		
Accounts Receivable	(162)	(1,115)
Employee Retention Credit Receivable	2,650	-
Inventories	899	(4,402)
Contract Assets	(1,780)	(1,188)
Prepaid Expenses	(588)	(213)
Income Tax Receivable	(388)	(22)
Income Tax Payable	(696)	(45)
Accounts Payable	(1,636)	1,659
Accrued Payroll and Commissions	(810)	1,071
Customer Deposits	345	934
Other Accrued Liabilities	(124)	396
Net Cash Provided By Operating Activities	2,181	1,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment	-	15
Purchase of Intangible Asset	-	(43)
Purchases of Property and Equipment	(1,121)	(1,687)
Net Cash Used In Investing Activities	(1,121)	(1,715)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	95,783	88,673
Payments to Line of Credit	(98,035)	(87,816)
Principal Payments on Financing Leases	(291)	(326)
Stock Option Excercises	155	51
Net Cash (Used In) Provided By Financing Activities	(2,388)	582
Effect of Exchange Rate Changes on Cash	(32)	-
Net Change in Cash and Restricted Cash	(1,360)	(133)
Cash and Restricted Cash - Beginning of Year	2,481	2,225
Cash and Restricted Cash - End of Period	$ 1,121	$ 2,092

Reconciliation of cash and restricted cash reported within the consolidated balance sheets		
Cash	$ 699	$ 1,300
Restricted Cash	422	792
Total Cash and restricted cash reported in the consolidated statements of cash flows	$ 1,121	$ 2,092

	THREE MONTHS ENDED MARCH 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 765	$ 681
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	482	505
Compensation on stock-based awards	80	99
Change in inventory reserves	76	32
Change in accounts receivable allowances	(66)	(32)
Other, net	(4)	(15)
Changes in current operating assets and liabilities:		
Accounts receivable	3,215	(206)
Inventories	(1,400)	1,075
Contract assets	287	(823)
Prepaid expenses and other current assets	(328)	(600)
Accounts payable	(8)	(1,799)
Accrued payroll and commissions	640	1,244
Customer deposits	(926)	1,315
Other accrued liabilities	15	242
Net cash provided by operating activities	2,828	1,718
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	9	-
Purchases of property and equipment	(744)	(496)

Net cash used in investing activities	(735)	(496)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	32,768	31,133
Payments to line of credit	(32,394)	(32,145)
Principal payments on financing leases	(100)	(96)
Stock option exercises	-	35
Net cash provided by (used in) financing activities	274	(1,073)
Effect of exchange rate changes on cash	(14)	3
Net change in cash and cash equivalents	2,353	152
Cash and cash equivalents - beginning of period	1,675	2,481
Cash and cash equivalents - end of period	$ 4,028	$ 2,633
Reconciliation of cash and restricted cash reported within the condensed consolidated balance sheets:		
Cash	$ 4,028	$ 1,267
Restricted cash	-	1,366
Total cash and restricted cash reported in the condensed consolidated statements of cash flows	$ 4,028	$ 2,633

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2024	2023
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 134	$ 129
Cash paid for income taxes	$ 141	$ 112

Supplemental noncash investing and financing activities:				
Property and equipment purchases in accounts payable	$	16	$	78
Operating lease assets acquired under operating lease	$	719	$	-

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements Statements.

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SHAREHOLDERS' EQUITY

(UNAUDITED)

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30			
	2023		2022	
Supplemental Disclosure of Cash Flow Information:				
Cash Paid During the Period for Interest	$	388	$	328
Cash Paid During the Period for Income Taxes		1,242		122
Supplemental Noncash Investing and Financing Activities:				
Property and Equipment Purchases in Accounts Payable		23		332

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
Balance as of December 31, 2022	250	$ 250	2,691	$ 27	$ 16,347	$ (370)	$ 11,826	$ 28,080
Net income	-	-	-	-	-	-	681	681

Foreign currency translation adjustment	-	-	-	-	-	40	-	40
Stock option exercises	-	-	10	-	35	-	-	35
Compensation on stock-based awards	-	-	-	-	99	-	-	99
Cumulative adjustment related to the adoption of ASC 326 (Current expected credit loss)	-	-	-	-	-	-	(30)	(30)
Balance as of March 31, 2023	250	$ 250	2,701	$ 27	$ 16,481	$ (330)	$ 12,477	$ 28,905
Balance as of December 31, 2023	250	$ 250	2,740	$ 27	$ 16,929	$ (532)	$ 18,670	$ 35,344
Net income	-	-	-	-	-	-	765	765
Foreign currency translation adjustment	-	-	-	-	-	(183)	-	(183)
Compensation on stock-based awards	-	-	-	-	80	-	-	80
Issuance for stock-based awards	-	-	15	-	-	-	-	-

	Preferred Stock		Common Stock										
Balance as of March 31, 2024	250	$	250	2,755	$	27	$	17,009	$	(715)	$	19,435	$ 36,006

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(UNAUDITED)

(IN THOUSANDS)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
BALANCE JUNE 30, 2022	$ 250	$ 27	$ 16,136	$ (183)	$ 10,673	$ 26,903
Net Income	-	-	-	-	1,534	1,534
Foreign Currency Translation Adjustment	-	-	-	(365)	-	(365)
Stock option exercises	-	-	18	-	-	18
Compensation on Stock-Based Awards	-	-	93	-	-	93
BALANCE SEPTEMBER 30, 2022	$ 250	$ 27	$ 16,247	$ (548)	$ 12,207	$ 28,183
BALANCE DECEMBER 31, 2021	$ 250	$ 27	$ 15,962	$ 56	$ 9,816	$ 26,111
Net Income	-	-	-	-	2,391	2,391
Foreign Currency Translation Adjustment	-	-	-	(604)	-	(604)
Compensation on Stock-Based Awards	-	-	51	-	-	51
Stock Option Exercises	-	-	234	-	-	234

BALANCE SEPTEMBER 30, 2022	$ 250	$ 27	$ 16,247	$ (548)	$ 12,207	$ 28,183
BALANCE JUNE 30, 2023	$ 250	$ 27	$ 16,712	$ (611)	$ 13,111	$ 29,489
Net Income	-	-	-	-	1,207	1,207
Foreign Currency Translation Adjustment	-	-	-	(77)	-	(77)
Stock Option Exercises	-	-	9	-	-	9
Compensation on Stock-Based Awards	-	-	80	-	-	80
BALANCE SEPTEMBER 30, 2023	$ 250	$ 27	$ 16,801	$ (688)	$ 14,318	$ 30,708
BALANCE DECEMBER 31, 2022	$ 250	$ 27	$ 16,347	$ (370)	$ 11,826	$ 28,080
Net Income	-	-	-	-	2,522	2,522
Foreign Currency Translation Adjustment	-	-	-	(318)	-	(318)
Stock Option Exercises	-	-	155	-	-	155
Compensation on Stock-Based Awards	-	-	299	-	-	299
Cumulative Adjustment Related to the Adoption of ASC 326	-	-	-	-	(30)	(30)
BALANCE SEPTEMBER 30, 2023	$ 250	$ 27	$ 16,801	$ (688)	$ 14,318	$ 30,708

See Accompanying Condensed Notes to Condensed Consolidated Financial Statements Statements.

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements for the interim periods have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the financial information and footnotes required by GAAP for complete financial statements, although we believe Company has omitted footnote disclosures that would substantially duplicate the disclosures are adequate to make contained in the information presented not misleading. It is suggested that these Company's audited consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction together with the audited consolidated financial statements for the year ended December 31, 2023, and the notes thereto included in our Annual Report on Form 10-K for as filed with the year ended December 31, 2022. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year or for any other interim period. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. SEC.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these condensed consolidated financial statements, we have made our best estimates and judgments of certain amounts included in the condensed consolidated financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by us could have a significant impact on our financial results, since actual results could differ from those estimates.

Principles of Consolidation

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

Revenue Recognition Use of Estimates

Our revenue The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our consolidated financial statements. Estimates also affect the reported amounts of net sales and expenses during each reporting period. Significant items subject to estimates and assumptions include the valuation allowance for inventories, accounts receivable allowances, realizability of deferred tax assets and long-lived asset recovery. Actual results could differ from those estimates.

Recently Issued New Accounting Standards

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

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

Out-of-Period Correction

During the contract first quarter of 2024, we identified an error that understated our accrued liabilities by transferring approximately $178 as of December 31, 2023. We corrected the promised product or service to error on a prospective basis during the first quarter of 2024 through an out of period adjustment lowering our customer either when (or as) our customer obtains control net income by $178. We assessed the materiality of the product error and concluded that the error was not material to the results of operations or service, with financial condition or for the majority of our revenue being recognized over time including goods produced under contract manufacturing agreements prior annual and services revenue. A performance obligation interim periods, and the correction is a promise in a contract not expected to transfer a distinct product or service be material to a customer. A contract’s transaction price is allocated to each distinct performance obligation. The majority of our contracts have a single performance obligation. Revenue is recorded net of returns, allowances and customer discounts. Our net sales the full year results for services were less than 10% of our total sales for all periods presented, and accordingly, are included in net sales in the Condensed Consolidated Statements of Operations and Comprehensive Income. Sales, value add, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis. Shipping and handling costs charged to our customers are included in net sales, while the corresponding shipping expenses are included in cost of goods sold. fiscal year 2024.

Stock-Based Awards

Stock Options

In May 2017, the shareholders approved the 2017 Stock Incentive Plan which authorized the issuance of 350,000 shares. Subsequent to this approval, an additional 325,000 shares have been authorized by the shareholders.

We granted 25,000 and 54,000 service-based stock options during the three and nine months ended September 30, 2023, respectively. The weighted-average grant-date fair value of options granted during the three and nine months ended September 30, 2023 was $6.13 and $5.88, respectively. There were no market-based stock options granted during the three and nine months ended September 30, 2023.

We granted 0 and 21,000 market-based stock options during the three and nine months ended September 30, 2022, respectively. The market condition options vest if certain stock prices are exceeded between February 27, 2024 and February 27, 2028. We granted 3,000 and 69,000 service-based options during the three and nine months ended September 30, 2022, respectively. Total option grants for the three and nine months ended September 30, 2022 were 3,000 and 90,000, respectively.

Total compensation expense related to stock options was $42 and $184 for the three and nine months ended September 30, 2023, respectively. Total compensation expense related to stock options was $62 and $168 for the three and nine months ended September 30, 2022, respectively. As of September 30, 2023, there was $724 of unrecognized compensation which will be recognized over a weighted average period of 3.8 years.

Following is the status of all stock options as of September 30, 2023:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding - January 1, 2023	452,700	$ 5.97		
Granted	54,000	9.63		
Exercised	(38,244)	4.09		
Cancelled	(43,956)	7.50		
Outstanding - September 30, 2023	424,500	$ 6.45	6.48	$ 1,375
Exercisable - September 30, 2023	242,800	$ 4.44	5.16	$ 1,197

Restricted Stock Units

During the three months and nine months ended September 30, 2023, we granted 0 and 18,000 restricted stock units (“RSUs”), respectively under our 2017 Stock Incentive Plan to non-employee directors which vest over two years. The RSUs granted in the three and nine months ended September 30, 2023 had an average grant price of $9.37 per share. Total compensation expense related to the RSUs was $38 and $115 for the three and nine months ended September 30, 2023, respectively. Total unrecognized compensation expense related to the RSUs was $154, which will vest over a weighted average period of 1.2 years.

During the three months and nine months ended September 30, 2022, we granted 0 and 21,000 restricted stock units, respectively to non-employee directors which vest over two years. Total compensation expense related to the RSUs was $31 and $66 for the three and nine months ended September 30, 2022, respectively.

Following is a status of all RSUs as of September 30, 2023:

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Fair Value (in thousands)
Outstanding - January 1, 2023	21,000	$ 12.00		
Granted	18,000	9.37		
Vested	(10,500)	12.00		
Forfeited	(6,000)	10.93		
Outstanding - September 30, 2023	22,500	$ 10.18	9.23	$ 208

Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding. Dilutive net income per common share assumes the exercise and issuance of all potential common stock equivalents in computing the weighted-average number of common shares outstanding, unless their effect is antidilutive. All stock options and restricted stock units, while outstanding, are considered common stock equivalents.

For the three and nine months ended September 30, 2023, stock options of 150,783 and 171,723, respectively were included in the computation of diluted net income per common share as their impact were dilutive. For the three and nine months ended September 30, 2022, stock options of 212,643 and 202,479, respectively were included in the computation of diluted net income per share as their impact were dilutive.

We had outstanding stock options totaling 47,538 and RSUs totaling 16,784 that are not included in the computation of diluted net income per share as their effect would have been anti-dilutive for the three months ended September 30, 2023. We had average outstanding stock options totaling 37,869 and RSUs totaling 15,027 that are not considered in the computation of diluted net income per share as their effect would have been anti-dilutive for the nine months ended September 30, 2023.

We had outstanding stock options totaling 34,211 that are not considered in the computation of diluted net income per share as their effect would have been anti-dilutive for the three months ended September 30, 2022. We had average outstanding stock options totaling 44,070 that are not considered in the computation of diluted net income per share as their effect would have been anti-dilutive for the nine months ended September 30, 2022.

Restricted Cash

Cash and cash equivalents classified as restricted cash on our consolidated balance sheets are restricted as to withdrawal or use under the terms of certain contractual agreements. As of September 30, 2023, we had outstanding letters of credit for $300. Restricted cash as of September 30, 2023 was $422. The September 30, 2023 and December 31, 2022 restricted cash balance included lockbox deposits that are temporarily restricted due to timing at the period end. The lockbox deposits are applied against our line of credit the next business day.

Accounts Receivable

Credit is extended based upon an evaluation of the customer's financial condition and, while collateral is not required, the Company periodically receives surety bonds that guarantee payment. Credit terms are consistent with industry standards and practices.

Allowance for Credit Losses

When we record customer receivables and contract assets arising from revenue transactions, we record an allowance for credit losses for the current expected credit losses (CECL) inherent in the asset over its expected life. The allowance for credit losses is a valuation account deducted from the cost basis of the assets to present their net carrying value at the amount expected to be collected. Each period, the allowance for credit losses is adjusted through earnings to reflect expected credit losses over the remaining lives of the assets.

We estimate expected credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. When measuring expected credit losses, we pool assets with similar country risk and credit risk characteristics. Changes in the relevant information may significantly affect the estimates of expected credit losses.

Assets are written off when we determine them to be uncollectible. Write-offs are recognized as a deduction from the allowance for credit losses.

Inventories

Inventories are stated at the lower of average cost (which approximates first-in, first out) or net realizable value. Costs include material, labor, and overhead required in the warehousing and production of our products. Inventory reserves are maintained for the estimated value of the inventories that may have a lower value than stated or quantities in excess of future production needs.

Inventories are as follows:

	September 30, 2023	December 31, 2022
Raw Materials	$ 20,551	$ 21,673
Work in Process	1,220	1,238
Finished Goods	828	671
Reserves	(1,132)	(1,144)
Total	$ 21,467	$ 22,438

	March 31, 2024	December 31, 2023
Raw materials	$ 22,143	$ 20,863
Work in process	992	1,033

Finished goods	1,059	934
Reserves	(1,243)	(1,170)
Total inventories	$ 22,951	$ 21,660

Other Intangible Assets

Other intangible assets at September 30, 2023 as of March 31, 2024 and December 31, 2022 December 31, 2023 are as follows:

	Customer Relationships	Patents	Total
Balance at January 1, 2022	$ 360	$ 141	$ 501
Additions	-	71	71
Amortization	144	6	150
Balance at December 31, 2022	216	206	422
Amortization	108	11	119
Balance at September 30, 2023	$ 108	$ 195	$ 303

	Customer Relationships	Patents	Total
Balances as of January 1, 2023	$ 216	$ 206	$ 422
Amortization	144	15	159
Balances as of December 31, 2023	$ 72	$ 191	$ 263
Amortization	36	4	40
Balances as of March 31, 2024	$ 36	$ 187	$ 223

Intangible assets are amortized on a straight-line basis over their estimated useful lives. The weighted-average weighted average remaining amortization period of our intangible assets is 1.1 2.4 years. Of the patents value at September 30, 2023 as of March 31, 2024, $85 $77 are being amortized and $110 are in process and a patent has not yet been received. issued.

Amortization expense of finite life intangible assets for both the three and nine months ended September 30, 2023 March 31, 2024 and 2023 was $39 and $119, respectively. Amortization expense of finite life intangible assets for the three and nine months ended September 30, 2022 was $40 and $111, respectively. $40.

EstimatedAs of March 31, 2024, estimated future annual amortization expense (not including patents(except projects in process of $110) process) related to these assets is approximately as follows:

Year	Amount
Remainder of 2023	$ 40
2024	87
2025	14
2026	14
Thereafter	38
Total	$ 193

Adoption of New Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asses is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized.

On January 1, 2023, we adopted the guidance prospectively with a cumulative adjustment to retained earnings. We have not restated comparative information for 2022 and, therefore, the comparative information for 2022 is reported under the old model and is not comparable to the information presented for 2023.

At adoption, we recognized an allowance for credit losses related to accounts receivable and contract assets of $30, net of tax, and a decrease in retained earnings of $30 associated with the increased estimated credit losses.

Revision and Immaterial Correction of an Error in Previously Issued Financial Statements

The Company identified an error related to the classification of the activity on our line of credit facility with Bank of America at December 31, 2022 as reported on Form 10-K. In our September 30, 2022 condensed consolidated financial statements, we incorrectly classified borrowings and payments on our line of credit facility on a net basis within the financing section of the condensed consolidated cash flow statement; this activity should be shown on a gross basis. This change in presentation to the condensed consolidated cash flow statement does not impact total operating, investing, or financing cash flows. There was no change to the condensed consolidated statement of income or condensed consolidated balance sheet. In accordance with ASC 250, Accounting Changes and Error Corrections, we evaluated the materiality of the errors from quantitative and qualitative perspectives and concluded that the errors were immaterial to the Company’s 2022 audited financial statements. Since these revisions were not material to any prior period financial statements, no amendments to previously filed financial statements are required. Consequently, the Company has corrected these immaterial errors by revising the September 30, 2022 consolidated financial statements presented herein.

The tables below present the effect of the financial statement adjustments related to the revision discussed above of the Company's previously reported financial statements as of and for the period ended September 30, 2022:

Condensed Consolidated Statements of Cash Flows

	September 30, 2022		
CASH FLOWS FROM FINANCING ACTIVITIES	As reported	Adjustment	As revised
Net Proceeds from Line of Credit	857	(857)	-
Proceeds from Line of Credit	-	88,673	88,673
Payments to Line of Credit	-	(87,816)	(87,816)
Principal Payments on Long-Term Debt	-	-	-
Principal Payments on Financing Leases	(326)	-	(326)
Stock Option Exercises	51	-	51
Net Cash Provided by Financing Activities	582	-	582

Year	Amount
2024	$ 47
2025	14
2026	14
2027	14
2028	14
Thereafter	10
Total	$ 113

NOTE 2. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash, accounts receivable, and contract assets. With regard to cash, we maintain our excess cash balances in checking accounts at primarily two financial institutions, one in the United States and one in China. The account in the United States may at times exceed federally insured limits. Of the $699 in The Company's $4,028 cash balance as of March 31, 2024, included approximately $930 and restricted cash at September 30, 2023, approximately $640 and $45 $7 was held at banks located in China and Mexico, respectively. We grant credit to customers in the normal course of business and generally do not require collateral on our accounts receivable.

We have certain customers whose revenue individually represented 10% or more of net sales, or whose accounts receivable balances individually represented 10% or more of gross accounts receivable. Two customers accounted for 36% and 38% 35% of net sales for the three and nine months ended September 30, 2023 March 31, 2024. One customer accounted for 28% and 26% 29% of net sales for the three and nine months ended September 30, 2022, respectively. March 31, 2023.

At September 30, 2023

As of March 31, 2024, two customers represented approximately 37% of our gross accounts receivable. At December 31, 2022 As of December 31, 2023, one two customer customers represented approximately 21% 35% of our gross accounts receivable.

Contract assets for three customers accounted for 41% of gross contract assets as of March 31, 2024. Contract assets for two customers accounted for 29% 34% of gross contract assets at September 30, 2023. Contract assets for one customer accounted for 22% as of gross contract assets at December 31, 2022, respectively. December 31, 2023.

Export sales from the U.S. represented approximately 3% for both the three and nine months ended September 30, 2023. Export sales represented approximately 4% of net sales for both the three and nine months ended September 30, 2022.

March 31, 2024 and 2023, respectively.

NOTE 3. REVENUE

Revenue recognition Recognition

Our revenue is comprised of product, engineering services and repair services. All revenue is recognized when the Company satisfies its performance obligation(s) under the contract by transferring the promised product or service to our customer either when (or as) our customer obtains control of the product or service, with the majority of our revenue being recognized over time including goods produced under contract manufacturing agreements and services revenue. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer products or services is not separately identifiable from other promises in the contract and, therefore, not distinct.

Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products or providing services. As such, revenue is recorded net of returns, allowances and customer discounts. Sales, value add, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis. Shipping and handling costs are included in cost of goods sold.

The majority of our revenue is derived from the transfer of goods produced under contract manufacturing agreements which have no alternative use and we have an enforceable right to payment for our performance completed to date. Our performance obligations within our contract manufacturing agreements are generally satisfied over time as the goods are produced based on customer specifications and we have an enforceable right to payment for the goods produced. Revenues under these agreements are generally recognized over time using an input measure based upon the proportion of actual costs incurred. If these requirements are not met, the revenue is recognized at a point in time, generally upon shipment. Revenue under contract manufacturing agreements that was recognized over time accounted for approximately 74% of net sales for both the three and nine months ended September 30, 2023, March 31, 2024 and both the three and nine months ended September 30, 2022. 2023.

Accounting for contract manufacturing agreements involves the use of various techniques to estimate total revenue and costs. We estimate profit on these agreements as the difference between total estimated revenue and expected costs to complete the performance obligation within the terms of the agreement and recognize the respective profit as the goods are produced. The estimates to determine the profit earned on the performance obligation are based on anticipated selling prices and historical cost of goods sold and represent our best judgement at the time. Changes in judgements on these above estimates could impact the timing and amount of revenue recognized with a resulting impact on the timing and amount of associated profit.

On occasion our customers provide materials to be used in the manufacturing process and the fair value of the materials is included in revenue as noncash consideration at the point in time when the manufacturing process commences along with the same corresponding amount recorded as cost of goods sold. The inclusion of noncash consideration has no impact on overall profitability.

Contract Assets

Contract assets, recorded as such in the Condensed Consolidated Balance Sheet, consist of unbilled amounts related to revenue recognized over time. Significant changes in the contract assets balance during the nine three months ended September 30, 2023 was March 31, 2024 were as follows (in thousands): follows:

Balance outstanding at December 31, 2022	$ 9,982	
Balances as of January 1, 2024		$ 14,481
Increase (decrease) attributed to:		
Amounts transferred over time to contract assets	76,225	25,214
Allowance for current expected credit losses	(22)	
Amounts invoiced during the period	(74,439)	(25,501)
Balance outstanding at September 30, 2023	$ 11,746	
Balance outstanding as of March 31, 2024		$ 14,194

We expect substantially all of the remaining performance obligations for the contract assets recorded as of September 30, 2023 March 31, 2024, to be transferred to receivables within 90 days, with any remaining amounts to be transferred within 180 days. We bill our customers upon shipment with payment terms of up to 120 days.

The following tables summarize our net sales by market for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively:

	Three Months Ended September 30, 2023				Three Months Ended March 31, 2024			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration	Total Net Sales by Market	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration[1]	Total Net Sales by Market
Medical	$ 12,029	$ 5,185	$ 621	$ 17,835	$ 14,240	$ 5,245	$ 797	$ 20,282
Aerospace and defense					5,545	242	73	5,860
Industrial	8,195	1,999	241	10,435	5,429	2,347	297	8,073
Aerospace and Defense	4,609	450	40	5,099				
Total net sales	$ 24,833	$ 7,634	$ 902	$ 33,369	$ 25,214	$ 7,834	$ 1,167	$ 34,215

	Three Months Ended September 30, 2022				Three Months Ended March 31, 2023			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration	Total Net Sales by Market	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration[1]	Total Net Sales by Market
Medical	$ 14,753	$ 5,366	$ 420	$ 20,539	$ 15,725	$ 5,061	$ 586	$ 21,372
Aerospace and defense					6,590	2,408	474	9,472
Industrial	8,104	2,314	420	10,838	3,415	550	79	4,044
Aerospace and Defense	3,202	493	204	3,899				
Total net sales	$ 26,059	$ 8,173	$ 1,044	$ 35,276	$ 25,730	$ 8,019	$ 1,139	$ 34,888

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

The following tables summarize our net sales by market for the nine months ended September 30, 2023 and 2022, respectively:

	Nine Months Ended September 30, 2023			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration	Total Net Sales by Market
Medical	$ 42,324	$ 15,564	$ 1,926	$ 59,814
Industrial	21,378	6,532	1,056	28,966
Aerospace and Defense	12,523	1,674	301	14,498
Total net sales	$ 76,225	$ 23,770	$ 3,283	$ 103,278

	Nine Months Ended September 30, 2022			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration	Total Net Sales by Market
Medical	$ 37,725	$ 15,044	$ 1,574	$ 54,343
Industrial	21,563	6,301	1,095	28,959
Aerospace and Defense	13,248	1,254	701	15,203
Total net sales	$ 72,536	$ 22,599	$ 3,370	$ 98,505

NOTE 4. FINANCING ARRANGEMENTS

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

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

The Revolver requires the Company to maintain no more than 2.5 times leverage ratio and at least a 1.25 times minimum fixed charges coverage ratio, both of which are defined in the Revolver agreement. The Company met the covenants for the period ended March 31, 2024. There are no subjective acceleration clauses under the Revolver that would accelerate the maturity of outstanding borrowings. The Revolver contains certain covenants which, among other things, require the Company to adhere to regular reporting requirements, abide by shareholder dividend limitations, maintain certain financial performance, and limit the amount of annual capital expenditures. The Revolver is secured by substantially all the Company's assets and expires on February 28, 2027.

Amounts borrowed on the Revolver are subject to variations in the SOFR index rate. Under the prior credit agreement signed December 31, 2021, with Bank of America, the line of credit is subject to borrowing availability was restricted by a defined asset borrowing base, and interest was based on variations in the Bloomberg Short-Term Bank Yield (BSBY) index rate. Our line of credit bears interest at a weighted-average interest rate of 8.2% 9.4% and 5.2% 8.3% as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. We had borrowings on our line of credit of $4,645 $6,220 and $6,897 $5,846 outstanding as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. There are no subjective acceleration clauses under As of March 31, 2024 we had unused availability on the line of credit agreement that would accelerate the maturity of our outstanding borrowings. In addition, the credit agreement does not expire within one year, the Company is not in violation of the covenants and the Company expects Bank of America to be capable of honoring the financing arrangement. $8,780.

The line of credit is shown net of debt issuance costs of $34 $50 and $44 $31 on the condensed consolidated balance sheet for the periods ended September 30, 2023 as of March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

The line of credit with Bank of America contains certain covenants which, among other things, require us to adhere to regular reporting requirements, abide by annual shareholder dividend limitations, maintain certain financial performance, and limit the amount of annual capital expenditures.

The Bank of America Credit Agreement provides for, among other things, a Fixed Charge Coverage Ratio of not less than 1.0 to 1.0, for the twelve months ending December 31, 2020 and each Fiscal Quarter end thereafter subject only during a trigger period commencing when our availability under our line is less than $2,000 until availability is above that amount for 30 days. The Company met the covenants for the period ended September 30, 2023.

At September 30, 2023, we had unused availability under our line of credit of $7,515 supported by our borrowing base. The line is secured by substantially all our assets.

NOTE 5. LEASES

We have operating leases for certain manufacturing sites, office space, and equipment. Most leases include the option to renew, with renewal terms that can extend the lease term from one to five years or more. Right-of-use lease assets and lease liabilities are recognized at the commencement date based on the present value of the remaining lease payments over the lease term which includes renewal periods we are reasonably certain to exercise. Our leases do not contain any material residual value guarantees or material restrictive covenants. At September 30, 2023 As of March 31, 2024, we do not have material lease commitments that have not commenced.

The components of lease expense were as follows:

Lease Cost	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
Operating lease cost	$ 576	$ 572
Finance lease interest cost	9	14
Finance lease amortization expense	182	182
Total lease cost	$ 767	$ 768
Lease Cost	**Nine Months Ended September 30, 2023**	**Nine Months ended September 30, 2022**
Operating lease cost	$ 1,735	$ 1,731
Finance lease interest cost	32	50
Finance lease amortization expense	546	547
Total lease cost	$ 2,313	$ 2,328

Lease Cost	March 31, 2024	March 31, 2023
Operating lease cost	$ 596	$ 567
Finance lease interest cost	7	12
Finance lease amortization expense	131	182
Total lease cost	$ 734	$ 761

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

	Balance Sheet Location	**September 30, 2023**	**December 31, 2022**	Balance Sheet Location	March 31, 2024	December 31, 2023
Assets						
Finance lease assets				Property and equipment, net	$ 504	$ 636
Operating lease assets	Operating lease assets	$ 6,955	$ 7,850	Operating lease assets, net	7,339	6,917
Finance lease assets	Property, Plant and Equipment	817	1,363			
Total leased assets	Total leased assets	$ 7,772	$ 9,213	Total leased assets	$ 7,843	$ 7,553
Liabilities						
Current						
Current finance lease liabilities				Current portion of finance lease obligations	$ 296	$ 356
Current operating lease liabilities				Current portion of operating lease obligations	1,235	1,033
Noncurrent						
Long-term finance lease liabilities				Long-term finance lease liabilities, net of current portion	168	209

Long-term operating lease liabilities	Long-term operating lease obligations, net of current portion	6,977	6,763
Total lease liabilities	Total lease liabilities	$ 8,676	$ 8,361

Supplemental condensed consolidated statement of cash flow flows information related to leases was as follows:

	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Operating leases				
Operating Leases				
Cash paid for amounts included in the measurement of lease liabilities	$ 1,381	$ 1,279	$ 459	$ 493
Property acquired under operating lease			$ 719	$ -

Maturities Future payments of lease liabilities as of March 31, 2024 were as follows:

	Operating Leases	Finance Leases	Total	Operating Leases	Finance Leases	Total
Remaining 2023	$ 434	$ 108	$ 542			
2024	1,514	379	1,893	$ 1,397	$ 271	$ 1,668
2025	1,265	106	1,371	1,635	106	1,741
2026	1,227	107	1,334	1,581	108	1,689
2027	1,256	-	1,256	1,286	-	1,286
Therafter	5,817	-	5,817			
2028				1,279	-	1,279
Thereafter				4,539	-	4,539
Total lease payments	$ 11,513	$ 700	$ 12,213	$ 11,717	$ 485	$ 12,202
Less: Interest	(3,682)	(38)	(3,720)			

Less: imputed interest				(3,505)	(21)	(3,526)
Present value of lease liabilities	$ 7,831	$ 662	$ 8,493	$ 8,212	$ 464	$ 8,676

The lease term and discount rate at September 30, 2023 as of March 31, 2024 were as follows:

Weighted-average remaining lease term (years)		
Operating leases	8.7 7.9	
Finance leases	2.0 1.7	
Weighted-average discount rate		
Operating leases	7.8 8.1	%
Finance leases	5.3	%

NOTE 6. STOCK BASED AWARDS

Stock-based compensation expense was reported as follows in the condensed consolidated statements of operations within General and Administration expenses of $80 and $99 for the three months ended March 31, 2024 and 2023, respectively.

Stock Options

In May 2017, the shareholders approved the 2017 Stock Incentive Plan which authorized the issuance of 350,000 shares. An additional 50,000, 175,000 and 100,000 shares were authorized in March 2020, May 2022, and May 2023, respectively. There were no stock options granted during both the three months ended March 31, 2024 and 2023.

Total compensation expense related to stock options was $56 and $68 for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, there was $776 of unrecognized compensation related to stock options which will be recognized over a weighted average period of 3.3 years.

Following is the status of option activity for the three months ended and as of March 31, 2024:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual **Term (in years)**	Aggregate Intrinsic Value
Outstanding – December 31, 2023	458,700	$ 6.63	6.53	$ 1,432
Granted	-	-		
Exercised	-	-		
Forfeited	(6,200)	11.10		
Outstanding – March 31, 2024	452,500	$ 6.57	6.57	$ 3,066
Exercisable on March 31, 2024	294,100	$ 4.71	4.71	$ 2,530

Restricted Stock Units

During the periods ended March 31, 2024 and 2023, we granted 0 restricted stock units (“RSUs”). Total compensation expense related to the RSUs was $24 and $31 for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, total unrecognized compensation expense related to the RSUs was $109, which will vest over a weighted average period of 1.0 years.

Following is the status of restricted stock activity for the three months ended and as of March 31, 2024:

	Shares	Weighted-Average Remaining Contractual **Term (in years)**	Aggregate Intrinsic Value
Outstanding – December 31, 2023	27,000	1.0	$ 254
Granted	-		
Vested	(15,000)		
Forfeited	-		
Outstanding – March 31, 2024	12,000	1.0	$ 160

NOTE 6. 7. NET INCOME PER SHARE DATA

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding using the treasury stock method during the period. The Company’s potentially dilutive common shares are those that result from dilutive common stock options and non-vested stock relating to restricted stock units.

The calculation of diluted income per share excluded 38,405 and 28,637 in weighted average shares for the three months ended March 31, 2024 and 2023, respectively, as their effect was anti-dilutive. Basic and diluted weighted average shares outstanding were as follows:

	Three Months Ended March 31,	
(In thousands)	2024	2023
Basic weighted average shares outstanding	2,742,511	2,692,033
Dilutive effect of outstanding stock options and non-vested restricted stock units	165,946	211,602
Diluted weighted average shares outstanding	2,908,457	2,903,635

NOTE 8. INCOME TAXES

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

Our effective tax rate for the three and nine months ended September 30, 2023 March 31, 2024 was (21%) and 13%, respectively. 22.6%. Our effective tax rate for the three and nine months ended September 30, 2022 March 31, 2023 was 16% and 15%, respectively. 27.8%. The primary drivers of the change decrease in the effective tax rate for both is attributable to the application of a valuation allowance during the three-month period ended March 31, 2023 and inclusion of estimated research and development tax credits in the three and nine month periods relates to the change in valuation allowance on the United States deferred tax assets due to return to provision adjustments months ended March 31, 2024, partially offset by increased taxes on foreign entities.

NOTE 7. EMPLOYEE RETENTION CREDIT 9. PAYROLL TAX DEFERRAL

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law providing numerous tax provisions and other stimulus measures, including an employee retention credit (“ERC”), which is a refundable tax credit against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and allowed for the American Rescue Plan Act of 2021 extended and expanded the availability deferral of the ERC.
All ERC payments have been received as employer portion of September 30, 2023. At December 31, 2022 social security taxes incurred through the end of calendar 2020. During the year ended December 31, 2023, the Company had ERC benefits remitted $1,158 to the Internal Revenue Service (“IRS”) related to the deferral of $2,650 within Employee Retention Credits Receivable on payroll taxes, of which $785 was recorded as a refund receivable as of December 31, 2023, with a corresponding liability due. These amounts were settled during the condensed consolidated balance sheet. three months ended March 31, 2024.

NOTE 8. 10. RELATED PARTY TRANSACTIONS

David Kunin, our Chairman, is a minority owner of Abilitech Medical, Inc. Mr. Kunin also was a consultant to Abilitech through March 1, 2021. In the three and nine months ended September 30, 2022, Abilitech paid the Company $0 and $217, respectively, for the delivery of medical products. No payments were received for the three and nine months ended September 30, 2023. We have assets recorded accounts receivable related to Abilitech including $226 of accounts receivable and inventory. $85. Payments of $28 were received during the three months ended March 31, 2024. Abilitech has ceased operations and therefore we do not believe that Abilitech will pay the Company for outstanding accounts receivable, or for inventory and we have recorded a full reserve allowance against the gross amounts. amount. The Company believes that transactions with Abilitech are were on terms comparable to those that the Company could reasonably expect in an arm's length transaction with an unrelated third party.

David Kunin, our Chairman, is a minority owner (less than 10%10%) of Marpe Technologies, LTD an early-stage medical device company dedicated to the early detection of skin cancer through full body scanners. Mr. Kunin is also a member of the Board of Directors of Marpe Technologies. The Company worked has an agreement with Marpe Technologies to apply for a grant from the Israel-United States Binational Industrial Research and Development Foundation, a legal entity created by Agreement between the Government of the State of Israel and the Government of the United States of America ("BIRD Foundation"). The parties were successful in receiving approval for a $1,000 conditional grant. The Company and Marpe Technologies will each receive $500 from the BIRD Foundation and, among other obligations under the grant, each is required to contribute $500 to match grant funds from the BIRD Foundation. The Company will meet has met its obligation by providing certain services at cost or with respect to administrative services at no cost to Marpe Technologies. The total value of the Company's contribution will not exceed $500. Marpe is engaged in raising funds for its operations, which funds are necessary to pay for the Company's services beyond its contribution. The Company will receive a 10-year exclusive right to manufacture the products of Marpe Technologies. There can be no assurances that Marpe Technologies' medical device operations will be commercially successful, that Marpe Technologies will be successful in raising additional funds to finance its operations or, if commercially successful, the Company will recover the value of services provided to Marpe if not paid when the services are provided. The transactions between the Company and Marpe Technologies have been approved by the Audit Committee pursuant to the Company Related-Party Transactions Policy. During the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, we recognized revenue net sales to Marpe Technologies of $163 $0 and $182, $67, respectively. As of March 31, 2024 and December 31, 2023, we have recorded an unbilled receivable of $21 and $39, respectively, related to expected reimbursement from the BIRD Foundation and have outstanding accounts receivable of $0 and $20, respectively. The Company believes that transactions with Marpe are on terms comparable to those that the Company could reasonably expect in an arm's length transaction with an unrelated third party.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS **Management's Discussion and Analysis of Financial Conditions and Results of Operations**

Overview

We are a Minnesota, United States based full-service global EMS contract manufacturer in the Medical, Aerospace & Defense and Industrial markets offering a full range of value-added engineering, technical and manufacturing services and support including project management, design, testing, prototyping, manufacturing, supply chain management and post-market services. Our products are complex electromedical and electromechanical products including medical devices, wire and cable assemblies, printed circuit board assemblies, complex higher-level assemblies and other box builds for a wide range of industries. We serve three major markets within the EMS industry: Medical, Aerospace and Defense, Medical, and the Industrial market which includes industrial capital equipment, transportation, vision, agriculture, oil and gas. We maintain As of March 31, 2024, we have facilities in Minnesota: Bemidji, Blue Earth, Mankato, Milaca and Milaca, Minnesota; Maple Grove. We also have facilities in Monterrey, Mexico; Mexico and Suzhou, China. All of our facilities are certified to one or more of the ISO/AS standards, including 9001, AS9100 and 13485, with most having additional certifications based on the needs of the customers they serve.

Results of Operations

The following table presents statements of operations data as percentages of total net sales for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of Goods Sold	84.1	82.1	84.2	84.4
Gross Profit	15.9	17.9	15.8	15.6
Selling Expenses	2.8	2.7	2.7	2.8
General and Administrative Expenses	8.8	8.4	9.0	8.5
Research and Development Expenses	0.9	1.3	0.9	1.2
Gain on Sale of Property and Equipment	0.0	0.0	0.0	0.0
Income from Operations	3.4	5.5	3.2	3.1
Interest Expense	(0.4)	(0.3)	(0.4)	(0.3)
Income Before Income Taxes	3.0	5.2	2.8	2.8
Income Tax (Benefit) Expense	(0.6)	0.8	0.4	0.4
Net Income	3.6 %	4.4 %	2.4 %	2.4 %

Net Sales Results of Operations

Net Sales. Net sales for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 were $33.4 million $34,215 thousand and $35.3 million, $34,888 thousand, respectively, a decrease of $1.9 million $673 thousand or 5% 2%. The decrease in following is a summary of net sales relates to demand fluctuations as customers work through inventory. The three months ended September 30, 2022 benefited from significant pricing actions ahead of material cost increases that contributed to record-high revenue in that period.

Net sales for the nine months ended September 30, 2023 and 2022 were $103.3 million and $98.5 million, respectively, an increase of $4.8 million or 5%. The increase in net sales is due to continued strong demand across our medical, industrial and defense market, and the impact of pricing actions taken in the second half of 2022.

Net sales by our major industry markets for the three months ended September 30, 2023 and 2022 were as follows (in millions): markets:

	Three months Ended September 30,			Nine months Ended September 30,			Three Months Ended March 31,			
	2023	2022	% Change	2023	2022	% Change				
(in thousands)							**2024**	**2023**	**Increase (Decrease)**	
Medical	$ 17.8	$ 20.5	(13.2)	$ 59.8	$ 54.3	10.1	$ 20,282	$ 21,372	$ (1,090)	(5.1)%
Industrial	10.5	10.9	(3.7)	29.0	29.0	-	8,073	9,472	(1,399)	(14.8)%
Aerospace and Defense	5.1	3.9	30.8	14.5	15.2	(4.6)				
Total Net Sales	$ 33.4	$ 35.3	(5.4)	$ 103.3	$ 98.5	4.9				
Aerospace and defense							5,860	4,044	1,816	44.9%
Total net sales							$ 34.215	$ 34,888	$ (673)	(1.9)%

- *Medical: Net sales to our medical customers were $20,282 thousand in the first quarter of 2024, a 5.1% decrease from $21,372 thousand in the prior-year quarter.* The decrease in net sales relates to demand fluctuations as customers work through inventory.
- *Industrial: Net sales to our industrial customers were $8,073 thousand in the first quarter of 2024, a 14.8% decrease from $9,472 thousand in the prior-year quarter.* The decrease in net sales relates to demand fluctuations as customers work through inventory.

- *Defense: Net sales to our aerospace and defense customers were $5,860 thousand in the first quarter of 2024, a 44.9% increase from $4,044 thousand in the prior-year quarter.* The increase in net sales relates to increasing demand in the aerospace and defense market and improved access to component parts which allowed increased manufacturing production.

Backlog

Backlog. Our 90-day shipment backlog as of September 30, 2023 March 31, 2024 was $33.8 million, a 1% decrease from $35,213 thousand, level with the beginning of the quarter and a 8% decrease 4.1% increase from September 30, 2022 March 31, 2023. Our 90-day backlog consists of firm purchase orders we expect to ship in the next 90 days, with any remaining amounts to be shipped within 180 days.

Our 90-day total order backlog by market has decreased when compared to as of March 31, 2024 was $86,001 thousand, a 6.2% decrease from $91,684 thousand at the prior beginning of the quarter and the same period of the prior year. a 13.0% decrease from March 31, 2023. As the supply chain continues to normalize, lead times are reducing and customers are starting to return returning to their pre-pandemic ordering practices, which has resulted in a decrease in our backlog. Our 90-day order backlog varies due to order size, manufacturing delays, contract terms and conditions and timing from customer delivery schedules and releases. These variables cause inconsistencies in comparing the backlog from one period by market has remained flat when compared to the next. prior quarter and increased relative to the same period of the prior year. More recently we are also noting, similar to many other contract manufactures, reduced visibility to revenues in the next several quarters as compared with order patterns in the prior-year quarters as customers are balancing their inventories and therefore, deferring the placement of some orders.

90-day shipment and total backlog by our major industry markets are as follows (in thousands):

(in thousands)	March 31, 2024		December 31, 2023		March 31, 2023	
	90 Day	Total	90 Day	Total	90 Day	Total
Medical	$ 16,995	$ 40,201	$ 18,107	$ 47,593	$ 20,587	$ 49,817
Industrial	8,200	15,184	8,644	13,857	7,776	20,530
Aerospace and defense	10,018	30,616	8,416	30,234	5,355	28,458
Total backlog	$ 35,213	$ 86,001	$ 35,167	$ 91,684	$ 33,718	$ 98,805

The 90-day and total backlog as of March 31, 2024 contain the contract asset value of $14,194 thousand which has been recognized as net sales.

90-day shipment backlog by our major industry markets are as follows (in millions):

	90 Day Backlog as of the Period Ended

	September 30 2023		June 30 2023		September 30 2022	
Medical	$	16.8	$	18.3	$	22
Industrial		9.7		9.7		8
Aerospace and Defense		7.3		6.3		5
Total 90-Day Backlog	$	33.8	$	34.3	$	36

Our total order backlog as of September 30, 2023 was $102.3 million, a 1% increase from $101.0 million the beginning of the quarter*Operating Costs* and *a 1% decrease from September 30, 2022. Our total backlog remains strong.* *Expenses.*

Total order backlog by our major industry markets are Net sales, cost of goods sold, gross margin, and operating costs were as follows (in millions): follows:

	Total Backlog as of the Period Ended					
	September 30 2023		June 30 2023		September 30 2022	
Medical	$	51.4	$	51.9	$	58
Industrial	19.7			21.0		22
Aerospace and Defense		31.2		28.1		22
Total Backlog	$	102.3	$	101.0	$	103

	Three Months Ended March 31,						
(Dollars in thousands)	2024		2023		Increase/(Decrease)		
Net sales	$	34,215	$	34,888	$	(673)	(2.0)%
Cost of goods sold		28,767		29,404		(637)	(2.0)%
Gross profit		5,448		5,484		(36)	(2.0)%
Gross margin percentage **(1)**		15.9 %		15.7 %		20 bpc(2)	
Selling expenses		805		890		(85)	(11.1)%
% of Net sales		2.3 %		2.6 %			
General and administrative expenses		3,170		3,265		(96)	3.0 %
% of Net sales		9.3 %		9.5 %			
Research &development expense		318		276		42	0.0 %
% Net sales		0.9 %		0.8 %			
Operating income		1,155		1,053		102	9.1 %
% Net sales		3.4 %		3.0 %			

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

(2) Basis points change in gross margin percentage.

The 90-day*Gross profit and total backlog at September 30, 2023 contain the contract asset value of $11.7 million which has been recognized as revenue.*

Gross Profit

gross margins. Gross profit as a percent of net sales was 15.9% and 15.8% for the three and nine months ended September 30, 2023, respectively. March 31, 2024. Gross profit as a percent of net sales was 17.9% and 15.6% 15.7% for the three and nine months ended September 30, 2022, respectively. March 31, 2023. The decrease 20-basis point increase in gross profit as a percentage of net sales for the three months ended September 30, 2023 March 31, 2024 compared to the same period of the prior year relates primarily to decreased plant utilization, favorable product mix as well as continued material and labor cost inflation. was net of a $178 thousand, or 16 basis points, catch-up accrual for Mexican statutory benefits.

Selling Expense

expenses. Selling expenses for the three and nine months ended September 30, 2023 March 31, 2024 were $0.9 million $805 thousand or 2.8% 2.3% of sales and $2.8 million or 2.7% of sales, respectively. net sales. Selling expenses for the three and nine months ended September 30, 2022 March 31, 2023 were $1.0 million $890 thousand or 2.7% 2.6% of sales and $2.8 million or 2.8% of sales, respectively.

General and Administrative Expense net sales. This decrease was driven by the lower revenue in the comparison periods.

General and administrative expenses. General and administrative expenses for the three and nine months ended September 30, 2023 March 31, 2024 were $3.0 million $3,170 thousand or 8.9% 9.3% of sales and $9.3 million or 9.0% of sales, respectively. net sales. General and administrative expenses for the three and nine months ended September 30, 2022 March 31, 2023 were $2.9 million $3,265 thousand or 8.4% 9.5% of net sales and $8.3 million or 8.5% of net sales, respectively. The increase in general and administrative expense was mainly due to higher wages and professional fees. sales.

Research and Development Expense

development expense. Research and development expenses for the three were $318 and nine months ended September 30, 2023 were $0.3 $276, or 0.9% and 0.8% of net sales, and $0.9 million or 0.9% of net sales, respectively. Research and development expenses for the three and nine months ended September 30, 2022 were $0.5 or 1.3% of net sales and $1.2 million or 1.2% of net sales, respectively.

Income From Operations

Income from operations was $1.1 million and $3.3 million for the three and nine months ended September 30, 2023, respectively. Income from operations was $1.9 million and $3.1 million for the three and nine months ended September 30,

2022. The decrease in income from operations for the comparable three month periods relates to the decreased revenue and gross margin in the third quarter of 2023.

Interest Expense

Interest expense was $0.1 million for both the three months ended September 30, 2023 March 31, 2024 and 2022. 2023, respectively.

Operating income. Operating income for the three months ended March 31, 2024 was $1,155 thousand or 3.4% of net sales. Operating income for the three months ended March 31, 2023 was $1,053 thousand or 3.0% of net sales.

Other expense

Interest expense. Interest expense was $0.4 and $0.3 million for the nine months ended September 30, 2023 and 2022, respectively.

Income Taxes

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

Our effective tax rate $167 thousand for the three and nine months ended September 30, 2023 March 31, 2024 and $110 thousand for the three months ended March 31, 2023. This increase was (21%) driven by higher interest rates. Refer to "Liquidity and 13%, Capital Resources" for further discussion of financing arrangements.

Income taxes. We reported income tax expense of $223 thousand and $262 thousand for the three months ended March 31, 2024 and 2023, respectively. Our effective tax rate was 22.6% and 27.8% for the three and nine months ended September 30, 2022 was 16% March 31, 2024 and 15%, 2023, respectively. The primary drivers of the change decrease in the effective tax rate for both is attributable to the application of a valuation allowance during the three-month period ended March 31, 2023 and inclusion of estimated research and development tax credits in the three and nine month periods relates to the change in valuation allowance on the United States deferred tax assets due to return to provision adjustments months ended March 31, 2024, partially offset by increased taxes on foreign entities.

Net Income Cash Flow Operating Results

Net income for the three months ended September 30, 2023 was $1.2 million or $0.44 per basic common share and $0.42 per diluted common share. Net income for the three months ended September 30, 2022 was $1.5 million or $0.57 per basic common share and $0.53 per diluted common share. The decrease in net income for the three month period was driven by the decrease in sales and gross margin. following is a summary of cash flow results:

Net income for the nine months ended September 30, 2023 was $2.5 million or $0.93 per basic and $0.87 per diluted common share. Net income for the nine months ended September 30, 2022 was $2.4 million or $0.89 per basic common share and $0.83 per diluted common share. The increase in net income for the nine month period was driven by the higher revenue and lower effective tax rate.

	Three Months Ended March 31,	
(in thousands)	2024	2023

Cash provided by (used in):		
Operating activities	$ 2,828	$ 1,718
Investing activities	(735)	(496)
Financing activities	274	(1,073)
Effect of exchange rates on changes in cash and cash equivalents	(14)	3
Net change in cash and cash equivalents	$ 2,353	$ 152

Operating Activities. Cash provided by operating activities was $2,828 thousand in the first three months of 2024, compared with cash provided of $1,718 thousand in the same prior-year period. Significant changes in operating assets and liabilities affecting cash flows during these periods included:

- Cash provided by accounts receivable and contract assets was $3,502 thousand in the current-year quarter as compared with cash usage of $1,029 thousand in the same prior-year quarter. The improved cash flow in the current year was due to an expected increase in cash collections due to higher sales and the timing of customer payments in the fourth quarter of 2023 as compared with the fourth quarter of 2022.
- Cash used in inventory was $1,400 thousand in the current-year quarter as compared with cash provided of $1,075 thousand in the prior-year quarter. The increase in the current-year period cash usage was the result of procurement requirements related to a higher 90-day shipment backlog versus the prior-year quarterly period and normal timing variances of inventory purchases.
- Cash provided by changes in accounts payable and accruals was $632 thousand in the current-year period as compared with cash usage of $555 thousand, primarily related to the timing of cash payments.
- Cash used in customer deposits was $926 thousand in the current-year quarter as compared with cash provided of $1,315 thousand in the prior-year period. This was driven by decreased lead times in the supply chain.

Investing Activities. Cash used in investing activities was $735 thousand in the first three months of 2024, compared with cash used of $496 thousand in the same prior-year period, both primarily for capital expenditures.

Financing Activities. Cash provided by financing activities was $274 thousand in the first three months of 2024, compared with cash used of $1,073 thousand in the same prior-year period. The improvement in cash provided by operating activities resulted from the timing of line of credit repayments.

Liquidity and Capital Resources

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

Credit Facility

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

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

The Revolver requires the Company to maintain no more than 2.5 times leverage ratio and at least a 1.25 times minimum fixed charges coverage ratio, both of which are defined in the Revolver agreement. The Company met the covenants for the period ended March 31, 2024. There are no subjective acceleration clauses under the Revolver that would accelerate the maturity of outstanding borrowings. The Revolver contains certain covenants which, among other things, require the Company to adhere to regular reporting requirements, abide by shareholder dividend limitations, maintain certain financial performance, and limit the amount of annual capital expenditures. The Revolver is secured by substantially all the Company’s assets and expires on February 28, 2027.

Amounts borrowed on the Revolver are subject to variations in the SOFR index rate. Under the prior credit agreement signed December 31, 2021, with Bank of America, the line of credit is subject to borrowing availability was restricted by a defined asset borrowing base, and interest was based on variations in the Bloomberg Short-Term Bank Yield (BSBY) index rate. Our line of credit bears interest at a weighted-average interest rate of 8.2% 9.4% and 5.2% 8.3% as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. We had borrowings on our line of credit of $4.6 million $6.2 million and $6.9 million $5.8 million outstanding as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. There are no subjective acceleration clauses under the credit agreement that would accelerate the maturity As of our outstanding borrowings. The line of credit is shown net of debt issuance costs of $34 thousand and $44 thousand on the consolidated balance sheet for the periods ended September 30, 2023 and December 31, 2022, respectively.

The line of credit with Bank of America contains certain covenants which, among other things, require us to adhere to regular reporting requirements, abide by annual shareholder dividend limitations, maintain certain financial performance, and limit the amount of annual capital expenditures.

The Bank of America Credit Agreement provides for, among other things, a Fixed Charge Coverage Ratio of not less than 1.0 to 1.0, for the twelve months ending December 31, 2020 and each Fiscal Quarter end thereafter subject only during a trigger period commencing when our availability under our line is less than $2.0 million until availability is above that amount for 30 days. The Company met the covenants for the period ended September 30, 2023.

At September 30, 2023, March 31, 2024 we had unused availability under our on the line of credit of $7.5 million supported by our borrowing base. The line is secured by substantially all of our assets. $8.8 million.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

Our significant accounting policies and estimates are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022. Some of our accounting policies require us to exercise significant judgment in selecting the appropriate assumptions for calculating financial estimates. Such judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, known trends in our industry, terms of existing contracts and other information from outside sources, as appropriate. Actual results could differ from these estimates.

Forward-Looking Statements

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

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

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

Please refer to forward-looking statements and risks as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023.

ITEM 3. ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II

ITEM 1. ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. ITEM 1A. RISK FACTORS

We are affected by the risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition or operating results or could cause our actual results to differ materially from our expectations are described in our annual report on Form 10-K for the fiscal year ended under the heading "Part I – Item 1A.Risk Factors." There have been no material changes in the risk factors from those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

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

Our share repurchase program has expired, and no additional amounts are available for repurchase.

ITEM 3. ITEM 3. DEFAULTS ON SENIOR SECURITIES

None.

ITEM 4. ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. ITEM 5. OTHER INFORMATION

None.None.

ITEM 6. ITEM 6. EXHIBITS

Exhibits

31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
32*	Certification of the Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the quarterly report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024, formatted in inline XBRL: iXBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) the Condensed Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

*Filed herewith

Signatures

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

Nortech Systems Incorporated and Subsidiaries

Nortech Systems Incorporated and Subsidiaries

Date: November 14, 2023 May 14, 2024	by	by /s/ Jay D. Miller
		Jay D. Miller

	Chief Executive Officer and President	
	Nortech Systems Incorporated	
Date: May 14, 2024	by /s/ Andrew D. C. LaFrence	
	Andrew D. C. LaFrence	Jay D. Miller
		Chief Executive Financial Officer and Senior Vice President of Finance
		Nortech Systems Incorporated
Date: November 14, 2023	by	/s/ Alan K. Nordstrom
		Alan K. Nordstrom
		Acting Chief Financial Officer and Corporate Controller
		Nortech Systems Incorporated

31 23

Exhibit 31.1

Certification of Chief Executive Officer

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

I, Jay D. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nortech Systems Inc. Incorporated and Subsidiary; Subsidiaries;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2023 May 14, 2024

By: /s/ Jay D. Miller

Jay D. Miller

Chief Executive Officer and President

Nortech Systems Incorporated

Exhibit 31.2

Certification of Chief Financial Officer

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

I, Alan K. Nordstrom, Andrew D. C. LaFrence, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nortech Systems Inc. Incorporated. and Subsidiary; Subsidiaies;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 14, 2023 May 14, 2024

By: /s/ Alan K. Nordstrom Andrew D. C. LaFrence

Alan K. Nordstrom Andrew D. C. LaFrence

Acting Chief Financial Officer and Corporate Controller Senior Vice President of Finance

Nortech Systems Incorporated

Exhibit 32

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Jay D. Miller, hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2023 May 14, 2024

By: /s/ Jay D. Miller

Jay D. Miller

Chief Executive Officer and President

Nortech Systems Incorporated

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Alan K. Nordstrom, Andrew D .C. LaFrence, hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) of the

Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2023 May 14, 2024

By: /s/ Alan K. Nordstrom Andrew D. C. LaFrence

Alan K. Nordstrom Andrew D. C. LaFrence

Acting Chief Financial Officer and Corporate Controller Senior Vice President of Finance

Nortech Systems Incorporated

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.