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

FORM 10-K

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2022

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
(Exact name of registrant as specified in its charter)
Commission file number 0-13257
State of Incorporation: Minnesota
IRS Employer Identification No. **41-1681094**
Executive Offices: **7550 Meridian Circle N #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	Name of each exchange on which registered
Common Stock, par value $.01 per share	NSYS	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No X

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 X No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 X	Smaller reporting company X
	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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404 (b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. X

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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

The aggregate market value of voting stock held by non-affiliates of the registrant, based on the closing price of $14.00 per share, was $17,606,931 on June 30, 2022.

Shares of common stock outstanding at March 6, 2023: 2,700,633.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for Registrant's Annual Meeting of Shareholders to be held on May 10, 2023 have been incorporated by reference into Part III of this Form 10-K. The Proxy Statement is expected to be filed with the Securities and Exchange Commission (the SEC) within 120 days after December 31, 2022, the end of our fiscal year.

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NORTECH SYSTEMS INCORPORATED
ANNUAL REPORT ON FORM 10-K
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PART I

Item 1. Business

General
Nortech Systems, Inc., ("the Company", "we", "our") organized in December 1990, is a provider of design and manufacturing solutions for complex electromedical devices, electromechanical systems, assemblies and components headquartered in Maple Grove, Minnesota, a suburb of Minneapolis, Minnesota. We maintain facilities and operations in Minnesota in the United States; Monterrey, Mexico; and Suzhou, China. We offer a full range of value-added engineering, technical and manufacturing services and support including project management, designing, testing, prototyping, manufacturing, supply chain management and post-market services. Our manufacturing and engineering services include complete medical devices, printed circuit board assemblies, wire and cable assemblies, and complex higher-level electromechanical assemblies. The majority of our revenue is derived from products built to the customer's design specifications.

Our breadth of manufacturing, technical expertise and experience make us attractive to our broad customer base. Our customers are original equipment manufacturers ("OEMs") in the Medical, Aerospace and Defense and Industrial markets. The diversity in the markets we serve is an advantage in dealing with the effects of fluctuations from the economy and competition. In the design phase, we provide technical support, subject matter expertise in design for manufacturing and testing capabilities that allow our customer programs to get to production faster while meeting both their quality and cost requirements. Our customers rely on our experience and capabilities in manufacturing and supply chain to manage and reduce cost over the life cycle of their products. This requires a strong relationship with our customers based on a trusting partnership as we perform as an extension of their operations.

All of our facilities are certified to one or more of the industry standards, including International Standards Organization ("ISO") 9001, ISO 13485, and Aerospace Systems ("AS") 9100, with most having additional certifications based on the needs of the customers they serve. In addition to industry standard certifications we actively manage quality metrics throughout product life-cycle at all levels of the organization to provide real-time, pro-active support to our customers and their projects. Process validation is performed through the strict phases of installation qualification, operation qualification and performance qualification.

Business Segment
The Company operates in the Medical, Aerospace & Defense and Industrial markets with over 50% of its revenue coming from medical device and product manufacturing and related engineering services. All of our operations fall under the Contract Manufacturing segment within the Electronic Manufacturing Services ("EMS") industry. We strategically direct production between our various manufacturing facilities based on a number of considerations to best meet our customers' needs. We share resources for sales, marketing, engineering, supply chain, information services, human resources, payroll, and all corporate accounting functions. Our financial information is evaluated regularly on a consolidated basis by the chief operating decision maker in assessing performance and allocating resources.

Business Strategy
The EMS industry has evolved into a dynamic, high-tech, regulated global electronics contract services industry. We continue to expand our capabilities and footprint to better meet these changing market requirements. Along with offering technical expertise in our quality processes, engineering design applications and testing, we are also increasing our focus on supplier-managed inventory services and the cost drivers throughout the global supply chain. We continue to transform our business model from one that is less transactional and price/commodity driven to a solution based model focused on value added services. We continue to pursue strategic opportunities that may include acquisitions, mergers, and/or joint ventures with complementary companies to expand our service offering, advance our competitive edge, grow our customer base and increase revenues. Our strategic objectives and our history have been based on both organic and acquired growth.

Our quality systems and processes are based on ISO standards with all facilities certified to ISO 9001 and/or AS9100 standards. We also have ISO 13485 certification which recognizes our quality management systems applicable to contract design, manufacture and repair of assemblies for the medical industry. Our Milaca operation is a U.S. Food and Drug Administration ("FDA") registered facility. These certifications and registrations provide our customers assurance of our capabilities and proven processes.

We are committed to quality, cost effectiveness and responsiveness to customer requirements. To achieve these objectives we have invested in Restriction of Hazardous Substances (lead free) processing, equipment, plant capacity studies, people, enterprise resource planning systems, lean manufacturing and supply chain management techniques at our facilities. We are committed to continuous improvement and have invested in training our people to identify and act on improvement opportunities. We maintain a diversified customer base and expand into other capabilities and services when there is a fit with our core competencies and strategic vision.

Marketing
We concentrate our marketing efforts in the Medical, Aerospace & Defense and Industrial markets. Our marketing strategy emphasizes our breadth, expertise and experience in each of our markets. Our expertise helps our customers save time and money and also reduces their risks. The breadth of our manufacturing, supply chain, engineering services and complete turnkey solutions assist our customers in getting their products to market quickly while managing the total cost solution. Our strength is managing low to moderate volume components and assemblies with high mix customer demand. This requires us to have close customer relationships and operational flexibility to manage the variation of product demands.

Our customer emphasis continues to be on companies that require an electronic manufacturing partner with a high degree of manufacturing and quality sophistication, including statistical process control, statistical quality control, ISO standards, Military Specifications, AS9100 and FDA facility registration. We continue efforts to penetrate our existing customer base and expand market opportunities with participation in industry forums and selected trade shows. We target customers who value proven manufacturing performance, design, project management and application engineering expertise and who value the flexibility to manage the supply chain of a high mix of products and services. We market our services through a mix of traditional marketing outreach, a specialized business development team and independent manufacturers' representatives. For more information on our marketing and service offerings see our web site at nortechsys.com. The information on our company's website is not part of this filing.

Sources and Availability of Materials
We currently purchase the majority of our electronic components globally and directly from electronic component manufacturers and large electronic distributors. In 2021 and into 2022, we, like many other companies in our industries, experienced significant supply chain and shipping disruptions. We attempt to overcome these disruptions through advanced supply chain solutions we develop in partnership with our customers, a commitment to strong supplier partnerships and risk management tools.

Major Customers
Our largest customer accounted for approximately 26.9% of net sales in each of the years ended December 31, 2022 and 2021.

Patents and Licenses
Our success depends on our technical expertise, trade secrets, supply chain and manufacturing skills. However, during the normal course of business we have obtained or developed proprietary product requiring licensing, patent, copyright or trademark protection.

Competition
The contract manufacturing EMS industry's competitive makeup includes small closely held contract manufacturing companies, large global full-service contract manufacturers, company-owned in-house manufacturing facilities and foreign contract manufacturers. We do not believe that the small closely held operations pose a significant competitive threat in the markets and customers we serve, as they generally do not have the complete manufacturing and engineering services or capabilities required by our target customers. We believe the larger global full service and foreign manufacturers are more focused on higher volume customer engagements and we do not see them as our primary competition. We continue to see opportunities with OEM companies that have their own in-house electronic manufacturing capabilities as they evaluate their internal costs and investments against outsourcing to contract manufacturers like us. We see trends of the low volume, high mix customer demand going to a regional supply base. This is a good fit with our operations in US, Mexico and Asia. We continue to study and investigate other regions and global alternatives to meet our competitive challenges and customer requirements.

Research and Development
We perform research and development for customers on an as requested, project and program basis for development of conceptual engineering and design activities as well as products moving into production. We spent approximately $1.5 million and $0.5 million on product research and development in years ended 2022 and 2021, respectively. We continue to explore opportunities for developing proprietary manufacturing methods or products, particularly in complex wire and cable interconnect technologies.

Environmental Law Compliance
We believe that our manufacturing facilities are currently operating in compliance with local, state, and federal environmental laws. We plan to continue acquiring environmental-oriented equipment and incurring the expenditures we deem necessary for compliance with applicable laws. Expenditures relating to compliance for operating facilities incurred in the past have not significantly affected our capital expenditures, earnings or competitive position.

Government Regulation
As a medical device manufacturer, we have additional compliance requirements. We are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation ("QSR") requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections and product field monitoring by the FDA. To support the quality requirements of our Aerospace and Defense market customers, all our US locations are International Traffic in Arms Regulations ("ITAR") compliant.

Human Capital Resources
We have 782 full-time and 50 part-time/temporary employees as of December 31, 2022. Manufacturing personnel, including direct, indirect support and sales functions, comprise 781 employees, while general administrative employees total 51.

Foreign Operations and Export Sales from Our Domestic Operations
We have leased manufacturing facilities in Monterrey, Mexico and Suzhou, China. Monterrey, Mexico has approximately $494,000 and $454,000 in long-term assets, and $2,469,000 and $2,800,000 of right of use assets at December 31, 2022 and 2021, respectively. Suzhou, China has approximately $805,000 and $715,000 in long-term assets, and $384,000 and $896,000 of right of use assets at December 31, 2022 and 2021, respectively. Export sales from our domestic operations represented 4.0% and 3.1% of net sales the years ended December 31, 2022 and 2021, respectively.

Available Information
Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are available free of charge, as soon as reasonably practicable, after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission ("SEC"). These reports are available on our website at http://www.nortechsys.com and on the SEC's website at http://www.sec.gov. Information included on our website is not deemed to be incorporated into this Annual Report on Form 10-K.

Item 1A. Risk Factors
In evaluating our Company, careful consideration should be given to the following risk factors, in addition to the other information included in this Annual Report on Form 10-K. Each of these risk factors could adversely affect our business, operating results and/or financial condition, as well as adversely affect the value of an investment in our common stock. In addition to the following disclosures, please refer to the other information contained in this report, including our consolidated financial statements and the related notes.

Risks Related to our Business

A large percentage of our sales have been made to a small number of customers, and the loss of a major customer, if not replaced, would adversely affect us.
Our largest customer has accounts for 26.9% of net sales in each of the years ended December 31, 2022 and 2021. The loss of a substantial portion of net sales to our largest customers could have a material adverse effect on us.

We are dependent on suppliers for components and raw materials and may experience shortages, extended lead times, cost premiums and shipment delays that would adversely affect our customers and us.

We purchase raw materials, commodities and components for use in our production process. Increased costs of these materials could have an adverse effect on our production costs if we are unable to pass along price increases or reduce the other cost of goods produced through cost improvement initiatives. Fuel and energy cost increases could also adversely affect our freight and operating costs. Due to customer specifications and requirements, we are dependent on suppliers to provide critical electronic and other components and materials for our operations that could result in shortages of some of the components needed for production. Component shortages may result in an inability to deliver products on time or at all, expedited freight, overtime premiums and increased component costs. In addition to the financial impact on operations from lost revenue and increased cost, there could potentially be harm to our customer relationships. To reduce the effects of supply chain disruption for our customers, we have increased inventory significantly, which has resulted in a reduction of cash available. If we are unable to sell such inventory or sell such inventory within a reasonable timeframe, it may adversely affect our operations and financial results.

Our customers cancel orders, change order quantity, timing and specifications that if not managed would have an adverse effect on inventory carrying costs.

We face, through the normal course of business, customer cancellations and rescheduled orders and are not always successful in recovering the costs of such cancellations or rescheduling. In addition, excess and obsolete inventory losses as a result of customer order changes, cancellations, product changes and contract termination could have an adverse effect on our operations. We estimate and reserve for any known or potential impact from these possibilities

We depend heavily on our people and may from time to time have difficulty attracting and retaining skilled employees and the cost of labor may continue to increase.

Our operations depend upon the continued contributions of our key management, marketing, technical, financial, accounting, product development engineers, sales people and operations personnel. We also believe that our continued success will depend upon our ability to attract, retain and develop highly skilled managerial and technical resources and direct labor resources within our highly competitive industries. Not being able to attract or retain these employees could have a material adverse effect on revenues and earnings. In addition, the cost of attracting and retaining direct and indirect labor may continue to increase, which will increase our operating costs and may reduce our profitability.

Our engineering revenue depends on our ability to deliver quality value-added engineering services required by our customers.

The markets for our engineering services are characterized by rapidly changing technology and evolving process development. The continued success of our business will depend upon our ability to hire and retain qualified engineering personnel and maintain and enhance our technological leadership. Although we believe that we currently have the ability to provide the value-added engineering services that is required by our customers, there is no certainty that we will develop the capabilities required by our customers in the future. The emergence of new technology, industry standards or customer requirements may render the engineering services we currently provide obsolete or uncompetitive. The acquisition and implementation of new engineering knowledge, technical skills and related equipment may require significant expense that could adversely affect our operating results, as could our failure to anticipate and adapt to our customers' changing technological requirements.

We operate in highly competitive industries and we depend on continuing outsourcing by OEMs.

We compete against many companies that engineer and manufacture complex electromedical and electromechanical products medical, aerospace & defense products and industrial products. The larger global competitors have more resources and greater economies of scale and have more geographically diversified international operations. We also compete with OEM operations that are continually evaluating manufacturing products internally against the advantages of outsourcing or delaying their decision to outsource. We may also be at a competitive disadvantage with respect to price when compared to manufacturers with excess capacity, lower cost structures and availability of lower cost labor.

Competitive factors in our targeted markets are believed to be product and service pricing, quality, the ability to meet delivery schedules, customer service, value-added engineering, technology solutions, geographic location and price. We also expect that our competitors will continue to improve the performance of their current products or services, to reduce their current products or service sales prices and improve services that maybe offered. Any of these could cause a decline in sales, loss of market share, or lower profit margin.

The availability of excess manufacturing capacity of our competitors also creates competitive pressure on price and winning new business. We must continue to provide a quality product, be responsive and flexible to customers' requirements, and deliver to customers' expectations. Our lack of execution could have an adverse effect on our results of operations and financial condition.

The manufacture and sale of products carries potential risk for product liability claims.
We generally are required to represent and warrant to our customers that the goods and services we deliver are free from defects in material and workmanship generally for one year. If a product liability claim results in our being liable, it could have a material adverse effect on our business and financial position. We have insurance coverage for products liability claims, but there can be no assurances that the amount of coverage will be adequate or that insurance proceeds will be available for a particular claim.

The Company is majority owned by one group of shareholders, and those shareholders may be able to take actions that do not reflect the will or best interests of other shareholders.
The Kunin family as a group owns a majority of our common stock. As a result, our majority shareholder group will have the ability to elect all of the members of our Board of Directors and thereby control our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payment of dividends, if any, on our common stock, the incurrence or modification of debt by us, amendments to our amended and restated certificate of incorporation and amended and restated bylaws and the entering into of extraordinary transactions, and their interests may not in all cases be aligned with your interests.

In addition, the majority shareholder group may have an interest in pursuing transactions that, in its judgment, could enhance its investment, even though such transactions might be inconsistent with your investment objectives.

As a majority owned or controlled company, NASDAQ does not require the Company to comply with certain corporate governance rules including that we are not required to have a majority of independent directors on the board, an independent compensation committee, or an independent nominating and corporate governance committee. The Company is required to have an audit committee comprised of independent directors. Having fewer independent directors or fewer independent members of the Compensation and Talent Committee or the Nominating and Corporate Governance Committee may result in increased influence of the majority ownership group over business operations.

Operating in foreign countries exposes our operations to risks that could adversely affect our operating results.
We operate manufacturing facilities in Mexico and China. Our operations in those countries are subject to risks that could adversely impact our financial results, such as economic or political volatility, foreign legal and regulatory requirements, international trade factors (export controls, trade sanctions, duties, tariff barriers and other restrictions), protection of our and our customers' intellectual property and proprietary technology in certain countries, potentially burdensome taxes, crime, employee turnover, staffing, managing personnel in diverse culture, labor instability, transportation delays, and foreign currency fluctuations.

Risks Related to our Assets

We are dependent on our information technology systems for order, inventory and production management, financial reporting, communications and other functions. If our information systems fail or experience major interruptions due to physical damage or loss of power on our business and our financial results could be adversely affected.
We rely on our information technology systems to effectively manage our operational and financial functions. Our computer systems, web sites, telecommunications, and data networks are vulnerable to damage or interruption from power loss, natural disasters and other sources of physical damage or disruption to the equipment which maintains, stores and hosts our information technology systems. We have taken steps to protect and create redundancies for the equipment that facilitates the use of our management information systems, but these steps may not be adequate to ensure that our operations are not disrupted by events within and outside of our control.

If our information technology systems fail or experience major interruptions, or the information technology systems of third parties that we rely upon fail or experience major interruptions, due to cyber-attacks or other activities designed to disrupt global information systems, our business and our financial results could be adversely affected.
We rely on information technology systems to effectively manage our operational and financial functions and our day-to-day functions. We increasingly rely on information technology systems to process, transmit, and store electronic information. In addition, a significant portion of internal communications, as well as communication with customers and suppliers, depends on information technology. We are exposed to the risk of cyber incidents in the normal course of business. Cyber incidents may be deliberate attacks for the theft of intellectual property, other sensitive information or cash or may be the result of unintentional events. Like most companies, our information technology systems may be vulnerable to interruption due to a variety of events beyond our control, including, but not limited to, terrorist attacks, telecommunications failures, computer viruses, hackers, foreign governments, and other security issues. We have technology security initiatives and data recovery plans in place to mitigate our risk to these vulnerabilities, but these measures may not be adequate, or implemented properly, or executed timely to ensure that our operations are not disrupted. Potential consequences of a material cyber incident include damage to our reputation, litigation, and increased cyber security protection and remediation costs. Such consequences could materially and adversely affect our results of operations. We have insurance coverage for cyber liability, but there can be no assurances that the amount of coverage will be adequate or that insurance proceeds will be available for a particular claim.

We are investing in new technologies which are inherently risky. We have made investments in research and development (“R&D) of new technologies that we believe will strengthen our relationships with customers if successful. To the extent that those investment efforts are unsuccessful, our competitive position may be harmed, and we may not realize a return on our investments.

To compete more successfully, we believe it is advantageous to maintain an effective R&D program to develop new products and manufacturing processes that will benefit our customers. Our R&D efforts are currently funded through investment of capital generated from operations, and we incurred R&D expenses of $1.5 million in 2022. We are focusing our R&D efforts across several key areas, including development of active optical cables and expanded beam connectors.

We do not expect all of our R&D investments to be successful. Some of our efforts to develop and market new products and technologies fail or fall short of our expectations, or will not be well-received by customers, who may adopt competing technologies.

Our investments in new products and technologies are inherently risky and are a departure from historical business operations. Developing Company owned technology and products is different than our historical manufacturing business. While we believe that this is an important step to further cultivate relationships with customers and partners, the Company has not historically developed its own technologies or products; rather, it has historically developed and manufactured products designed by our customers.

Development of new products and technologies may expose us to potential product liability risks that are inherent in the design, manufacture and marketing of those products. As a result, we face an inherent risk of damage to our reputation if one or more of our products or technologies are, or are alleged to be, defective. Although we carry product liability insurance, we may be exposed to product liability and warranty claims in the event that our products actually or allegedly fail to perform as expected or the use of our products results, or is alleged to result, in bodily injury and/or property damage. Product liability, warranty and recall costs may have a material adverse effect on our business, financial condition and results of operations.

Financial Risks

If we fail to comply with the covenants contained in our credit agreement, we may be unable to secure additional financing and repayment obligations on our outstanding indebtedness may be accelerated.
Our credit agreement contains financial and operating covenants with which we must comply. As of December 31, 2022, we were in compliance with these covenants. However, our continued compliance with these covenants is dependent on our financial results, which are subject to fluctuation as described elsewhere in these risk factors. If we fail to comply with the covenants in the future or if our lender does not agree to waive any future non-compliance, we may be unable to borrow funds and any outstanding indebtedness could become immediately due and payable, which could materially harm our business.

Our exposure to financially troubled customers, start-up businesses or suppliers may adversely affect our financial results.
We provide manufacturing services to companies and industries that have in the past, and may in the future, experience financial difficulty. Also, we provide services and products to new and high growth companies. If our customers experience financial difficulty or lack of funding for operations, we could have difficulty recovering amounts owed to us from these customers, or demand for our services or products from these customers could decline. Additionally, if our suppliers experience financial difficulty, we could have difficulty sourcing supply necessary to fulfill production requirements and meet scheduled shipments. If one or more of our customers were to become insolvent or otherwise were unable to pay for the services provided by us on a timely basis, or at all, our operating results and financial condition could be adversely affected. Such adverse effects could include one or more of the following: an increase in our provision for doubtful accounts, a charge for inventory write-offs, a reduction in revenue, and an increase in our working capital requirements due to higher inventory levels and increases in days our accounts receivables are outstanding.

Changes in currency translation rates could adversely impact our revenue and earnings.
Changes in exchange rates will impact our reported sales and earnings. A majority of our manufacturing and cost structure is based in the United States. In addition, decreased value of local currency may adversely affect demand for our products and may adversely affect the profitability of our products in U.S. dollars in foreign markets where payments are made in the local currency.

We do not expect to pay dividends for the foreseeable future, and we may never pay dividends; investors must rely on stock appreciation for any return on investment in our common stock.
We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including but not limited to, our financial condition, operating results, cash needs, growth plans, and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by state law. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize certain returns on their investment. As a result, investors must rely on stock appreciation and a liquid trading market for any return on investment in our common stock.

We expect volatility in the price of our common stock, which may subject us to securities litigation.
The market for our common stock may be characterized by significant price volatility when compared to other issuers, and we expect that our share price will be more volatile than other issuers for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against companies following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

Market Risks

Pandemics or disease outbreaks could adversely affect our operations, supply chains, financial condition and results of operations.

Outbreaks of epidemic, pandemic, or contagious diseases, such as, historically, the COVID-19 virus, Ebola virus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, or the H1N1 virus, could cause a disruption to our business. Business disruptions could include temporary closures of our facilities or the facilities of our suppliers, reduced demand from customers, unavailability or restricted availability of our material portions of our workforce, raw materials or components necessary to manufacture our products, or disruptions or restrictions on our ability to travel or to distribute our products. Any disruption of our operations, our suppliers or our customers would likely impact our sales and operating results. In addition, a significant outbreak of epidemic, pandemic, or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products and services. Any of these events could negatively impact our sales and have a material adverse effect on our business, financial condition, results of operations, or cash flows. We concluded no impairment of long-lived assets as of December 31, 2022 or 2021.

The economic conditions around the world could adversely affect demand for our products and services and the financial health of our customers.
Demand for our products and services depends upon worldwide economic conditions, including but not limited to overall economic growth rates, construction, consumer spending, financing availability, employment rates, interest rates, inflation, consumer confidence, defense spending levels, and the profits, capital spending, and liquidity of industrial companies.

An economic downturn or financial market turmoil may depress demand for our products and/or services in all major geographies and markets. If customers are unable to purchase our products or services because of unavailable credit or unfavorable credit terms, depressed end-user demand, or are simply unwilling to purchase our products or services, our net sales and earnings will be adversely affected. Also, we are subject to the risk that our customers will have financial difficulties, which could harm their ability to satisfy their obligation to pay accounts receivable. Further, an economic downturn may affect our ability to satisfy the financial covenants in the terms of our financing arrangements.

Legal and Regulatory Risks

We may not meet regulatory quality standards applicable to our manufacturing and quality processes which could have an adverse effect on our business.
We are registered with the FDA and are subject to periodic inspection by the FDA for compliance with its Quality System Regulation/Medical Device Good Manufacturing Practices requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. Also, our US facilities are ITAR compliant which is required for our manufacturing of defense related products. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections and product field monitoring. If any inspection reveals noncompliance with these regulations, it could adversely affect our operations.

Complying with securities laws, tax laws, accounting policies and regulations, and subsequent changes, may be costly for us and adversely affect our financial statements.
New or changing laws, regulations, policy and standards relating to corporate governance and public disclosure, including SEC and Nasdaq regulations, domestic or international tax legislation and the implementation of significant changes in the United States Generally Accepted Accounting Principles ("GAAP"), present challenges due to complexities, assumptions and judgements required to implement. We apply judgments based on our understanding, interpretation and analysis of the relevant facts, circumstances, historical experience and valuations, as appropriate. As a result, actual amounts could differ from those estimated at the time the financial statements are issued. In addition, implementation may change the financial accounting or reporting standards that govern the preparation of our financial statements or authoritative entities could reverse their previous interpretations or positions on how various financial accounting or reporting standards should be applied. These changes may be difficult to predict and implement and could materially or otherwise impact how we prepare and report our estimates, uncertainties, financial statements, operating results and financial condition. Our efforts to comply with evolving laws, regulations, accounting policies and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and management time and attention from revenue-generating activities to compliance activities and may have an adverse effect on our financial statements, including cash flows.

Anti-Corruption and Trade Laws - We may incur costs and suffer damages if our employees, agents, or suppliers violate anti-bribery, anti-corruption or trade laws and regulations.
Laws and regulations related to bribery, corruption and trade, and enforcement thereof, are increasing in frequency, complexity and severity on a global basis. The continued geographic expansion of our business into China and Mexico increases our exposure to, and cost of complying with, these laws and regulations. If our internal controls and compliance program do not adequately prevent or deter our employees, agents, suppliers and other third parties with whom we do business from violating anti-corruption laws, we may incur defense costs, fines, penalties, reputational damage and business disruptions.

Non-compliance with environmental laws may result in restrictions and could adversely affect operations.
Our operations are regulated under a number of federal, state, and foreign environmental and safety laws and regulations that govern the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of such materials. These laws and regulations include the Clean Air Act; the Clean Water Act; the Resource Conservation and Recovery Act; and the Comprehensive Environmental Response, Compensation, and Liability Act; as well as similar federal, state and foreign laws. Compliance with these environmental laws is a major consideration for us due to our manufacturing processes and materials. It is possible we may be subject to potential financial liability for costs associated with the investigation and remediation at our sites; this may have an adverse effect on operations. We have not incurred significant costs related to compliance with environmental laws and regulations and we believe that our operations comply with all applicable environmental laws.

Environmental laws could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation. We operate in environmentally sensitive locations and are subject to potentially conflicting and changing regulatory agendas of political, business, and environmental groups. Changes or restrictions on discharge limits; emissions levels; or material storage, handling, or disposal might require a high level of unplanned capital investment or relocation. It is possible that environmental compliance costs and penalties from new or existing regulations may harm our business, financial condition, and results of operations.

Global climate change and related regulations could negatively affect the Company.
Changes in environmental and climate change laws or regulations, including laws relating to Green House Gas (“GHG”) emissions, could lead to new or additional investment in the Company’s facilities and could increase environmental compliance expenditures. Changes in climate change concerns including GHG emissions, and the regulation of such concerns including climate-related disclosures, could subject the Company to additional costs and restrictions, including increased energy and raw material costs and other compliance requirements which could negatively impact the Company’s reputation, business, capital expenditures, results of operations and financial position.

Natural disasters, such as tornadoes and earthquakes, and possible future changes in climate could negatively impact our business and supply chain. Our properties may be exposed to rare catastrophic weather events, such as severe storms and/or floods. If the frequency of extreme weather events increases due to climate change, our exposure to these events could increase.

If we use hazardous materials in a manner that causes contamination or injury, we could be liable for resulting damages.
We are subject to Federal, State, and local laws, rules and regulations governing the use, discharge, storage, handling, and disposal of biological material, chemicals, and waste. We cannot eliminate the risk of accidental contamination or injury to employees or third parties from the use, storage, handling, or disposal of these materials. In the event of contamination or injury, we could be held liable for any resulting damages, remediation costs, and any related penalties or fines. This liability could exceed our resources or any applicable insurance coverage we may have. The cost of compliance with these laws and regulations may become significant, and our failure to comply may result in substantial fines or other consequences, and either could have a significant impact on our operating results.

Item 1B. Unresolved Staff Comments

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 2. Properties

Administration
Our corporate headquarters consists of an approximately 19,000 square feet building located in Maple Grove, Minnesota, a northwestern suburb of Minneapolis, Minnesota, and its lease expires January 2025.

Manufacturing facilities
Our manufacturing facilities are in good operating condition and we believe our overall production capacity is sufficient to handle our foreseeable manufacturing needs and customer requirements. The following are our manufacturing facilities as of December 31, 2022:

Location	Own/Lease	Lease End Date	Manufacturing Space Square Feet	Office Space Square Feet	Total Square Feet
Bemidji, MN	Lease	August 31, 2035	56,000	13,000	69,000
Blue Earth, MN	Own		92,000	48,000	140,000
Milaca, MN	Lease	June 30, 2025	15,000	5,000	20,000
Mankato, MN	Lease	August 31, 2035	43,000	15,000	58,000
Monterrey, Mexico	Lease	January 24, 2029	76,000	1,000	77,000
Suzhou, China	Lease	February 28, 2024	27,000	3,000	30,000
Suzhou, China	Lease	December 31, 2023	15,000	-	15,000
Suzhou, China	Lease	October 17, 2023	15,000	-	15,000

Item 3. Legal Proceedings

From time to time, we are involved in ordinary, routine or regulatory legal proceedings incidental to the business. When a loss is deemed probable and reasonably estimable an amount is recorded in our consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of March 6, 2023, there were 611 shareholders of record. Our stock is listed on the NASDAQ Capital Market under the symbol "NSYS". We intend to invest our profits into the growth of our operations and, therefore, do not plan to pay out dividends to shareholders in the foreseeable future. We did not declare or pay a cash dividend in 2022 or 2021. Future dividend policy and payments, if any, will depend upon earnings and our financial condition, our need for funds, limitations on payments of dividends present in our current or future debt agreements, and other factors.

Stock price comparisons (NASDAQ):

During the Three Months Ended	Low	High
March 31, 2022	$ 9.50	$ 12.38
June 30, 2022	$ 9.94	$ 14.37
September 30, 2022	$ 10.07	$ 19.56
December 31, 2022	$ 9.31	$ 16.01
March 31, 2021	$ 6.00	$ 9.00
June 30, 2021	$ 5.45	$ 10.67
September 30, 2021	$ 7.38	$ 14.20
December 31, 2021	$ 9.02	$ 12.59

Equity Compensation Plan Information
Certain information with respect to our equity compensation plans are contained in Part III, Item 12 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition 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, higher-level assemblies, and other box builds for a wide range of industries. We serve three major markets within the EMS industry: Aerospace and Defense, Medical, and the Industrial market which includes industrial capital equipment, transportation, vision, agriculture, oil and gas. As of December 31, 2022, we have facilities in Minnesota: Bemidji, Blue Earth, Mankato, Milaca and Maple Grove. We also have facilities in Monterrey, Mexico and Suzhou, China.

Our revenue is derived from complex designed products built to the customers' specifications. The products we manufacture are engineered and designed products that require sophisticated manufacturing support. Quality, on time delivery, and reliability are of upmost importance. Our goal is to expand and diversify our customer base by focusing on sales and marketing efforts that fit our value-added service, early engagement design, and development strategy. We continue to focus on lean manufacturing initiatives, quality and on-time delivery improvements to increase asset utilization, reduce lead times and provide competitive pricing.

Our strategic investments have positioned us to capitalize on growth opportunities in the medical markets and improve our competitiveness by expanding our global footprint. Our industrial and defense markets are focused on improving our asset utilization and profitability while transforming to a value added, solution-sell business model that supports early engagement, design for manufacturability and rapid prototyping.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our audited consolidated financial statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of our consolidated financial statements, the reported amounts of revenues and expenses during the reporting periods presented, as well as our disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions, including, but not limited to, valuation allowance for inventories, allowance for doubtful accounts, realizability of deferred tax assets and long-lived asset impairment testing.

We base our estimates and assumptions on our historical experience and on various other information available to us at the time that these estimates and assumptions are made. We believe that these estimates and assumptions are reasonable under the circumstances and form the basis for our making judgments about the carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results and outcomes could differ from our estimates primarily due to incorrect sales forecasting. We utilize a pipeline generated by our sales team and speak directly with all departments regarding estimates and assumptions. If, for any reason, those estimates, and assumptions vary substantially it would also impact our financial results.

Our accounting policies are described in "Note 1 – Summary of Significant Accounting Policies," in Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. We believe that the following discussion addresses our critical accounting policies and reflects those areas that require more significant judgments and use of estimates and assumptions in the preparation of our consolidated financial statements.

Revenue 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. Revenue is recorded net of returns, allowances and customer discounts. Our net sales 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.

Long-Lived Assets Impairment
We evaluate long-lived assets, primarily property and equipment, whenever current events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability for assets to be held and used is based on our projection of the undiscounted future operating cash flows of the underlying assets. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge might be required to reduce the carrying amount to equal estimated fair value.

Allowance for Doubtful Accounts
When evaluating the adequacy of the allowance for doubtful accounts, we analyze accounts receivable, historical write-offs of bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on outstanding accounts receivable. An amount of judgment is required when assessing the ability to realize accounts receivable, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, an additional provision for uncollectible accounts may be required.

Inventory Reserves
Inventory reserves are maintained for the estimated value of the inventory that may have a lower value than stated or quantities in excess of future production needs. We have an evaluation process to assess the value of the inventory that is slow moving, excess or obsolete on a quarterly basis. We evaluate our inventory based on current usage and the latest forecasts of product demand and production requirements from our customers.

Operating Results

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

	2022	2021
Net Sales	100.0%	100.0%
Cost of Goods Sold	84.7	86.2
Gross Profit	15.3	13.8
Selling Expenses	2.8	2.0
General and Administrative Expenses	8.5	8.7
Restructuring Expenses	0.0	0.3
R&D Expenses	1.1	0.4
Loss on Abandonment of Intangible Asset	0.0	0.5
Gain on Sale of Property and Equipment	0.0	(0.1)
Income from Operations	2.9	2.0
Interest Expense	(0.3)	(0.4)
PPP Loan Forgiveness	0.0	5.4
Income Before Income Taxes	2.6	7.0
Income Tax Expense	1.1	0.8
Net Income	1.5%	6.2%

Net Sales

Our net sales in 2022 were $134.1 million, compared to $115.2 million in 2021, an increase of $18.9 million or 16.4% that was driven by increases in all of our markets. The industrial market increased by $3.2 million or 9.0% in 2022 as compared to 2021. The medical market increased by $12.8 million or 20.3% with medical devices accounting for 6% of the increase and medical component products 94% of the increase. Net sales from the aerospace and defense markets increased by $2.9 million or 17.5% in 2022 as compared to 2021. These increases were driven by increased demand as well as price increases to counteract higher material and labor cost. We have also taken actions to scale the direct labor workforce and strengthen the supply chain for parts.

Net sales by our major EMS industry markets for the years ended December 31, 2022 and 2021 were as follows (in millions):

	2022	2021	% Change
Medical	$ 75.9	$ 63.1	20.3
Aerospace and Defense	19.5	16.6	17.5
Industrial	38.7	35.5	9.0
Total Net Sales	$ 134.1	$ 115.2	16.4

Net sales by timing of transfer of goods and services for years ended December 31, 2022 and 2021 are as follows (in millions):

Year Ended December 31, 2022

	Product/ Service Transferred Over Time	**Product Transferred at Point in Time**	**Noncash Consideration**	**Total Net Sales by Market**
Medical	$ 51.5	$ 22.3	$ 2.1	$ 75.9
Aerospace and Defense	16.7	1.9	0.9	19.5
Industrial	28.7	8.5	1.5	38.7
Total net sales	$ 96.9	$ 32.7	$ 4.5	$ 134.1

Year Ended December 31, 2021

	Product/ Service Transferred Over Time	**Product Transferred at Point in Time**	**Noncash Consideration**	**Total Net Sales by Market**
Medical	$ 47.3	$ 13.3	$ 2.5	$ 63.1
Aerospace and Defense	14.8	0.9	0.9	16.6
Industrial	27.2	6.9	1.4	35.5
Total net sales	$ 89.3	$ 21.1	$ 4.8	$ 115.2

Backlog

Our 90-day order backlog as of December 31, 2022 was $35.9 million as compared to $36.9 million at the end of 2021.Our 90-day backlog consists of firm purchase orders we expect to ship in the next 90 days, with any remaining amounts to be transferred within 180 days.

Our 90-day order backlog by market has remained relatively constant when compared to the prior year. 90-day 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 to the next.

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

	90 Day Backlog as of the Year Ended December 31, 2022	2021	% Change
Medical	$ 21.7	$ 20.4	6.4
Aerospace and Defense	5.1	7.6	(32.9)
Industrial	9.1	8.9	2.2
Total Backlog	$ 35.9	$ 36.9	(2.7)

Our total order backlog as of December 31, 2022 was $104.1 million, a 9.6% increase from $95.0 million at December 31, 2021. Our total backlog remains strong as our biggest customers are placing orders into the future to secure supply of critical components, in particular for those with long lead times.

Total order backlog by our major industry markets are as follows (in millions):

	Total Backlog as of the Year Ended December 31, 2022	2021	% Change
Medical	$ 57.1	$ 54.9	4.0
Aerospace and Defense	24.5	22.0	11.4
Industrial	22.5	18.1	24.3
Total Backlog	$ 104.1	$ 95.0	9.6

The 90-day and total backlog at December 31, 2022 contain the contract asset value of $10.0 million which has been recognized as revenue.

Gross Profit

Our gross profit as a percentage of net sales was 15.3% and 13.8% for the years ended December 31, 2022 and 2021, respectively. The gross profit improvement relates primarily to price increases in response to material and labor cost inflation and higher production volume which increased plant utilization. The prior year gross profit as a percentage of net sales benefited from the $4.7 million reduction in payroll and medical expenses related to the Employee Retention Credit (“ERC”).

Selling
Selling expenses were $3.7 million, or 2.8% of net sales, for the year ended December 31, 2022 and $2.4 million, or 2.0% of net sales, for the year ended December 31, 2021. The increase in selling expense is driven by an increase in sales engineering expenses to support the increased sales.

General and Administrative
General and administrative expenses were $11.4 million, or 8.5% of net sales, for the year ended December 31, 2022 and $10.0 million, or 8.7% of net sales, for the year ended 2021. General and administrative expenses for the twelve months ended December 31, 2022 were up $1.4 million mainly due to higher professional fees and higher cost of labor; the twelve months ended December 31, 2021 includes a $0.4 million reduction in payroll and medical expenses related to the ERC.

Restructuring Charges
There were no restructuring charges for the year ended December 31, 2022. Restructuring charges related to the closure of the Merrifield facility were $0.3 million or 0.3% of net sales for year ended December 31, 2021.

Research and Development Expense
Research and development expenses were $1.5 million or 1.1% of sales for the year ended December 31, 2022 and $0.5 million or 0.4% of sales for the year ended 2021. We have several projects in process with estimated completion dates within the next two to five years.

Loss on Abandonment of Intangible Asset
There were no abandonment charges for the year ended December 31, 2022. Abandonment charges were approximately $0.6 million or 0.5% of net sales for the year ended December 31, 2021. The charges relate to the abandonment of the Devicix tradename.

Income from Operations
Our income from operations for the 2022 fiscal year was $3.9 million, an increase of $1.6 million from the 2021 fiscal year income of $2.3 million. The increase in income from operations was driven by the increase in gross profit. Income from operations in the 2021 fiscal year was positively affected by the 2021 employee retention credits of $5.2 million.

Interest Expense
Interest expense for the year ended December 31, 2022 and December 31, 2021 was $0.4 million in each period.

Paycheck Protection Program (PPP) Loan Forgiveness
In the fourth quarter of 2021, we received forgiveness from the Small Business Association (SBA) for the $6.1 million Promissory Note under the PPP. We recorded a PPP loan forgiveness gain of $6.2 million, including interest forgiven, which is included in other income (expense) on the consolidated statement of operations and other comprehensive income (loss) for the year ended December 31, 2021.

Income Taxes

Income tax expense was $1.5 million and $0.9 million for the years ended December 31, 2022 and 2021, respectively. The effective tax rate for fiscal 2022 and 2021 was 42% and 12%, respectively. Our 2022 tax rate was driven by the increase in the valuation allowance from the Tax Cuts and Jobs Act requirement to capitalize and amortize research and experimental expenditures in 2022. Our 2021 tax rate was driven by the nontaxable PPP loan forgiveness.

The statutory reconciliation for the years ended December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Statutory Rate	$ 572	$ 1,606
State Income Tax	41	14
Effect of foreign operations	71	110
Withholding Tax	122	-
Change in State Deferred Rate	29	(39)
Valuation Allowance	587	472
PPP Loan Forgiveness	-	(1,276)
US Permanent differences	(28)	3
Federal Tax Credits	(272)	(37)
Global Intangible Low-Taxed Income Effect	301	391
Return to provision - credits, perm diffs	9	(481)
IRS Payable	17	121
Other	18	(25)
	$ 1,467	$ 859

Net Income

Our net income in 2022 was $2.0 million or $0.70 per diluted common share and $0.75 per basic common share. Our net income in 2021 was $7.2 million or $2.54 per diluted and $2.68 per basic common share.

Liquidity and Capital Resources

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

Credit Facility
We have 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 million that was to expire on June 15, 2022. On December 31, 2021, we renewed the credit agreement through June 15, 2026.

Under the Bank of America credit agreement, the line of credit is subject to variations in the Bloomberg Short-Term Bank Yield (BSBY) index rate. Our line of credit bears interest at a weighted-average interest rate of 5.2% and 3.5% as of December 31, 2022 and 2021, respectively. We had borrowings on our line of credit of $6.9 million and $9.0 million outstanding as of December 31, 2022 and December 31, 2021, respectively. There are no subjective acceleration clauses under the 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.

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 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, 2022 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 December 31, 2022.

At December 31, 2022 and 2021, we had unused availability under our line of credit of $8.4 million and $3.5 million, respectively, supported by our borrowing base. The line is secured by substantially all of our assets. During 2022, we amended our credit agreement to include the Employee Retention Credit Receivable as security in our line of credit which improves our unused availability which expired on January 15, 2023.

On April 15, 2020, we entered into a Promissory Note with Bank of America, N.A., which provides for an unsecured loan of $6.1 million pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the "CARES Act") of which funds were received on April 22, 2020. The loan was accounted for as debt until November 3, 2021 when the $6.1 million loan and $0.1 million accrued interest was fully forgiven by the SBA. As a result, we recorded a PPP loan forgiveness gain of $6.2 which is included in other income (expense) on the consolidated statements of operations and other comprehensive income for the year ended December 31, 2021.

Our China operation has a financing agreement with China Construction Bank which provides for a line of credit arrangement of 10,000,000 Renminbi (RMB) (approximately 1.5 million USD) that will expire on August 18, 2023. We had no amounts outstanding as of December 31, 2022 and 2021.

Cash flows for the years ended December 31, 2022 and 2021 are summarized as follows:

(in thousands)	2022	2021
Cash flows provided by (used in):		
Operating activities	$ 5,402	$ (4,540)
Investing activities	(2,426)	(730)
Financing activities	(2,667)	3,931
Effect of exchange rate changes on cash	(53)	0
Net change in cash	$ 256	$ (1,339)

Cash provided by operating activities for the year ended December 31, 2022 was $5.4 million compared to cash used in operations of $4.6 million for the year ended December 31, 2021. In 2022, the cash provided by operating activities was driven by results from operations. In 2021, increases in working capital due to higher sales backlog as well as actions taken to address the global supply chain shortages drove the use of cash from operating activities, primarily increased inventories of $4.6 million.

Net cash used in investing activities was $2.4 million for the year ended December 31, 2022 and net cash used in investing activities was $0.7 million for the year ended December 31, 2021. Cash used in investing activities in 2022 relates primarily to the purchase of $2.4 million of property and equipment. Cash used in investing activities in 2021 relates primarily to the purchase of $1.3 million of property and equipment offset by the proceeds from the sale of $0.6 million of property and equipment related to the Merrifield plant closure.

Net cash used in financing activities in 2022 of $2.7 million consisted primarily of net payments on the line of credit of $2.1 million and capital lease payments of $0.6 million. The cash provided by financing activities in 2021 of $3.9 million consisted primarily of increased borrowing on the line of credit of $5.7 million offset by payments on long-term debt and capital leases of $1.7 million.

Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in other reports filed with the SEC, in materials delivered to stockholders and in press releases. Such statements generally will be accompanied by words such as “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “intend,” “possible,” “potential,” “predict,” “project,” or other similar words that convey the uncertainty of future events or outcomes. Although we believe these forward-looking statements are reasonable, they are based upon a number of assumptions concerning future conditions, any or all of which may ultimately prove to be inaccurate. Forward-looking statements involve a number of risks and uncertainties. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation:

- Volatility in the marketplace which may affect market supply, demand of our products or currency exchange rates;
- 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;
- Risks related to availability of labor;
- Increases in certain raw material costs such as copper and oil;
- Commodity and energy cost instability;
- Risks related to FDA noncompliance;
- The loss of a major customer;
- General economic, financial and business conditions that could affect our financial condition and results of operations;
- Increased or unanticipated costs related to compliance with securities and environmental regulation;
- Disruption of global or local information management systems due to natural disaster or cyber-security incident;
- Outbreaks of epidemic, pandemic, or contagious diseases, such as the recent novel coronavirus that affect our operations, our customers' operations or our suppliers' operations.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
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FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of Nortech Systems, Inc. and Subsidiaries:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Nortech Systems, Inc. and Subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved or are especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2017.

Minneapolis, Minnesota

March 17, 2023

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE DATA)

	2022	2021
Net Sales	$ 134,123	$ 115,168
Cost of Goods Sold	113,643	99,304
Gross Profit	20,480	15,864
Operating Expenses:		
Selling Expenses	3,719	2,361
General and Administrative Expenses	11,425	10,002
Restructuring Expenses	-	327
R&D Expenses	1,463	483
Loss on Abandonment of Intangible Asset	-	560
Gain on Sale of Property and Equipment	(15)	(141)
Total Operating Expenses	16,592	13,592
Income from Operations	3,888	2,272
Other (Expense) Income		
Interest Expense	(411)	(430)
PPP Loan Forgiviness Gain	-	6,171
Total Other (Expense) Income	(411)	5,741
Income Before Income Taxes	3,477	8,013
Income Tax Expense	1,467	859
Net Income	$ 2,010	$ 7,154
Income Per Common Share:		
Basic	$ 0.75	$ 2.68
Weighted Average Number of Common Shares Outstanding - Basic	2,685,378	2,664,586
Diluted	$ 0.70	$ 2.54
Weighted Average Number of Common Shares Outstanding - Dilutive	2,891,285	2,821,523
Other comprehensive income		
Foreign currency translation	(426)	93
Comprehensive income, net of tax	$ 1,584	$ 7,247

See accompanying notes to consolidated financial statements

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2022 AND 2021
(IN THOUSANDS, EXCEPT SHARE DATA)

	2022	2021
ASSETS		
Current Assets		
Cash	$ 1,027	$ 643
Restricted Cash	1,454	1,582
Accounts Receivable, less allowances of $334 and $328	15,975	14,548
Employee Retention Credit Receivable	2,650	5,209
Inventories, Net	22,438	19,434
Contract Assets	9,982	8,698
Prepaid Assets	1,334	1,660
Total Current Assets	54,860	51,774
Property and Equipment, Net	6,408	5,833
Operating Lease Assets	7,850	8,983
Other Intangible Assets, Net	422	501
Total Assets	$ 69,540	$ 67,091
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current Portion of Finance Lease Obligations	$ 390	$ 601
Current Portion of Operating Leases	1,155	1,043
Accounts Payable	14,792	12,710
Accrued Payroll and Commissions	4,803	4,045
Other Accrued Liabilities	5,258	3,907
Total Current Liabilities	26,398	22,306
Long-Term Liabilities		
Long-term Line of Credit	6,853	8,959
Long-Term Finance Lease Obligations, Net of Current Portion	565	916
Long-Tem Operating Lease Obligations, Net of current Portion	7,549	8,695
Other Long-Term Liabilities	95	104
Total Long-Term Liabilities	15,062	18,674
Total Liabilities	41,460	40,980
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; 2,690,633 and 2,672,064 Shares Issued and Outstanding, respectively	27	27
Additional Paid-In Capital	16,347	15,962
Accumulated Other Comprehensive (Loss) Income	(370)	56
Retained Earnings	11,826	9,816
Total Shareholders' Equity	28,080	26,111
Total Liabilities and Shareholders' Equity	$ 69,540	$ 67,091

See accompanying notes to consolidated financial statements

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 2,010	$ 7,154
Adjustments to Reconcile Net Income to Net Cash Provided by (Used In) Operating Activities:		
Depreciation	1,768	1,774
Amortization	150	176
Compensation on Stock-Based Awards	334	111
Compensation on Equity Appreciation Rights	-	143
Loss on Abandonment of Intangible Asset	-	560
Change in Accounts Receivable Allowance	6	(15)
Change in Inventory Reserves	(149)	(860)
Gain on Disposal of Property and Equipment	(15)	(141)
PPP Loan Forgiveness Gain	-	(6,171)
Foreign Currency Transaction Gain	(72)	-
Changes in Current Operating Items		
Accounts Receivable	(1,746)	1,134
Employee Retention Credit Receivable	2,574	(5,209)
Inventories	(2,985)	(4,613)
Contract Assets	(1,283)	(2,799)
Prepaid Expenses and other Curent Assets	317	(171)
Income Taxes	643	634
Accounts Payable	2,216	1,471
Accrued Payroll and Commissions	783	1,176
Other Accrued Liabilities	851	1,106
Net Cash Provided by (Used In) Operating Activities	5,402	(4,540)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment	15	626
Purchase of Intangible Asset	(71)	(64)
Purchases of Property and Equipment	(2,370)	(1,292)
Net Cash Used In Investing Activities	(2,426)	(730)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	119,349	109,544
Payments to Line of Credit	(121,468)	(103,856)
Principal Payments on Long-Term Debt	-	(1,128)
Principal Payments on Financing Leases	(599)	(664)
Stock Option Excercises	51	35
Net Cash (Used In) Provided By Financing Activities	(2,667)	3,931
Effect of Exchange Rate Changes on Cash	(53)	-
Net Change in Cash and Cash Equivalents	256	(1,339)
Cash and Cash Equivalents - Beginning of Year	2,225	3,564
Cash and Cash Equivalents - End of Year	$ 2,481	$ 2,225
Reconciliation of cash and restricted cash reported within the consolidated balance sheets		
Cash	$ 1,027	$ 643
Restricted Cash	1,454	1,582
Total Cash and restricted cash reported in the consolidated statements of cash flows	$ 2,481	$ 2,225

	2022	2021
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	$ 476	$ 316
Cash Paid (Refunded) for Income Taxes	237	(114)
Supplemental Noncash Investing and Financing Activities:		
Property and Equipment Purchases in Accounts Payable	$ 14	$ 35
Property Acquired under Operating Lease	44	1,188
Equipment Acquired under Finance Lease	41	368
PPP Loan Forgiveness	-	6,171

See accompanying notes to consolidated financial statements

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
BALANCE DECEMBER 31, 2020	$ 250	$ 27	$ 15,816	$ (37)	$ 2,662	$ 18,718
Net Loss	-	-	-	-	7,154	7,154
Foreign Currency Translation Adjustment	-	-	-	93	-	93
Stock Option Exercises	-	-	35	-		35
Compensation on Stock-based awards	-	-	111	-	-	111
BALANCE DECEMBER 31, 2021	250	27	15,962	56	9,816	26,111
Net Income	-	-	-	-	2,010	2,010
Foreign Currency Translation Adjustment	-	-	-	(426)	-	(426)
Stock Option Exercises	-	-	51	-	-	51
Compensation on stock-based awards	-	-	334	-	-	334
BALANCE DECEMBER 31, 2022	$ 250	$ 27	$ 16,347	$ (370)	$ 11,826	$ 28,080

See accompanying notes to consolidated financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of Nortech Systems, Incorporated and Subsidiaries ("the Company", "we", "our") have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP") for financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC").

Nature of Business

Our manufacturing services include complete medical devices, printed circuit board assemblies, wire and cable assemblies, and complex higher-level electromechanical assemblies for a wide range of medical, industrial and defense and aerospace industries. We provide a full "turn-key" contract manufacturing service to our customers. All products are built to the customer's design specifications. We also provide engineering services and repair services.

Our manufacturing facilities are located in Bemidji, Blue Earth, Milaca, and Mankato, Minnesota as well as, Monterrey, Mexico and Suzhou, China. Products are sold to customers both domestically and internationally.

Principles of Consolidation

The consolidated financial statements include the accounts of Nortech Systems Incorporated and its wholly-owned subsidiaries, Manufacturing Assembly Solutions of Monterrey, Inc. and Nortech Systems Hong Kong Company, Limited and its subsidiary, Nortech Systems Suzhou Company, Limited. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

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 December 31, 2022 we had outstanding letters of credit for $300. Restricted cash as of December 31, 2022 and December 31, 2021 was $1,454 and $1,582, respectively. The December 31, 2022 and 2021 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 and Allowance for Doubtful Accounts

We grant credit to customers in the normal course of business. Accounts receivable are unsecured and are presented net of an allowance for doubtful accounts. The allowance for doubtful accounts was $334 and $328 at December 31, 2022 and 2021, respectively. We determine our allowance by considering a number of factors, including the length of time accounts receivable are past due, our previous loss history, the customers' current ability to pay their obligations to us, and the condition of the general economy and the industry as a whole. We write-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Employee Retention Credit (ERC) and 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 the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC.

The Company qualified and applied for the ERC in 2021 for the first and second quarters of that year. The Company has elected to account for the credit as a government grant. U.S. GAAP does not include grant accounting guidance for for-profit entities, therefore, the Company has elected to follow the grant accounting model in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance. In accordance with IAS 20, the Company cannot recognize any income from the grant until there is reasonable assurance (similar to the "probable" threshold in U.S. GAAP) that any conditions attached to the grant will be met and that the grant will be received. Once it is reasonably assured that the grant conditions will be met and that the grant will be received, grant income is recorded on a systematic basis over the periods in which the Company recognizes the payroll expenses for which the grant is intended to compensate. Income from the grant can be presented as either other income or as a reduction in the expenses for which the grant was intended to compensate.

The CARES Act allowed for the deferral of the employer portion of social security taxes incurred through the end of calendar 2020. As of December 31, 2022, there was $1,158 of social security tax payments deferred, of which 50% was required to be remitted by December 2021 and the remaining 50% by December 2022. IRS Notice 2020-22 and Notice 2021-24 provides that employers are not subject to the penalty for failing to timely deposit employment taxes under Code Section 6656 if (i) the amount of employment taxes that are not deposited (i.e., the deemed credit amount) is less than or equal to the employer's anticipated credits (ERC) and (ii) the employer did not previously file for advance payment of these credits. We did not remit the amount due on December 31, 2021 or during 2022 due to our awaiting receipt of the anticipated credits under the ERC that exceeds the deferral amount as allowed under the above IRS Notices. The deferred amounts are recorded within accrued payroll and commissions on the condensed consolidated balance sheets.

Inventories

Inventories consist of finished goods, raw materials and work-in-process and 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 production of our products. Inventory reserves are maintained for inventories that may have a lower value than stated or quantities in excess of future production needs.

We regularly review inventory quantities on-hand for excess and obsolete inventory and, when circumstances indicate, incur charges to write down inventories to their net realizable value. The determination of a reserve for excess and obsolete inventory involves management exercising judgment to determine the required reserve, considering future demand, product life cycles, introduction of new products and current market conditions.

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Inventories are as follows:

	2022	2021
Raw materials	$ 21,673	$ 18,492
Work in process	1,238	1,678
Finished goods	671	562
Reserves	(1,144)	(1,298)
Total	$ 22,438	$ 19,434

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Additions, improvements and major renewals are capitalized, while maintenance and minor repairs are expensed as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in operations. Leasehold improvements are depreciated over the shorter of their estimated useful lives or their remaining lease terms. All other property and equipment are depreciated by the straight-line method over their estimated useful lives, as follows:

	(in years)
Buildings	39
Leasehold improvements	3 - 15
Manufacturing equipment	3 - 7
Office and other equipment	3 - 7

Property and equipment at December 31, 2022 and 2021:

	2022	2021
Land	$ 148	$ 148
Building and Leasehold Improvements	5,289	4,083
Manufacturing Equipment	19,128	18,892
Office and Other Equipment	6,822	6,934
Accumulated Depreciation and Amortization	(24,979)	(24,224)
Total Property and Equipment, Net	$ 6,408	$ 5,833

Long-Lived Asset Impairment

We evaluate long-lived assets, primarily property and equipment, as well as the related depreciation periods, whenever current events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability for assets to be held and used is based on our projection of the undiscounted future operating cash flows of the underlying assets or asset group. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge might be required to reduce the carrying amount to equal estimated fair value. Assets held for sale are reported at the lower of the carrying amount or fair value less costs to dispose. No impairments of long-lived assets were recorded during the years ended December 31, 2022 and 2021.

Preferred Stock

Preferred stock issued is non-cumulative and nonconvertible. The holders of the preferred stock are entitled to a non-cumulative dividend of 12% when and if declared. In liquidation, holders of preferred stock have preference to the extent of $1.00 per share plus dividends accrued but unpaid. No preferred stock dividends were declared or paid during the years ended December 31, 2022 and 2021.

Revenue 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.

Goods created for customers with no alternative use and enforceable right to a payment of cost plus a reasonable margin, revenue is recognized over time instead of at a point in time. Revenue is recorded net of returns, allowances and customer discounts. Our net sales for services were less than 10% of our total sales for all periods presented, and accordingly, are included in net sales in the Consolidated Statements of Operations and Comprehensive Loss. 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.

Product Warranties

We provide limited warranty for the replacement or repair of defective product within a specified time period after the sale at no cost to our customers. We make no other guarantees or warranties, expressed or implied, of any nature whatsoever as to the goods including, without limitation, warranties to merchantability, fit for a particular purpose or non-infringement of patent or the like unless agreed upon in writing. We estimate the costs that may be incurred under our limited warranty and provide a reserve based on actual historical warranty claims coupled with an analysis of unfulfilled claims at the balance sheet date. Our warranty claim costs are not material given the nature of our products and services.

Advertising

Advertising costs are charged to operations as incurred. The total amount charged to expense was $63 and $57 for the years ended December 31, 2022 and 2021, respectively.

Income Taxes

We account for income taxes under the asset and liability method. Deferred income tax assets and liabilities are recognized annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We recognize interest and penalties accrued on any unrecognized tax benefits as a component on income tax expense.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Management must also assess whether uncertain tax positions as filed could result in the recognition of a liability for possible interest and penalties if any. Our estimates are based on the information available to us at the time we prepare the income tax provisions. Our income tax returns are subject to audit by federal, state, and local governments, generally three years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

Incentive Compensation

We use a Black-Scholes option-pricing model to determine the grant date fair value of our service-based incentive awards and recognize the expense on a straight-line basis over the vesting period. We determine the grant date fair value of our market-based incentive awards using a lattice simulation model and recognize the expense on a straight-line basis over the vesting period. The grant date fair value of restricted stock units is determined based on the closing market price of the Company's common stock on the date of grant, with compensation expense recognized ratably over the applicable vesting period. See Note 8 for additional information.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding. Dilutive net income (loss) 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. For the year ended December 31, 2022, stock options of 205,907 were included in the computation of diluted income per common share as their impact were dilutive. For the year ended December 31, 2021, stock options of 156,937 were included in the computation of diluted income per common share as their impact were dilutive.

Fair Value of Financial Instruments

The carrying amounts of all financial instruments approximate their fair values. The carrying amounts for cash, accounts receivable, ERC receivable, accounts payable, and other assets and liabilities approximate fair value because of the short maturity of these instruments. Based on the borrowing rates currently available to us for bank loans with similar terms and average maturities, the carrying value of our long-term debt and line of credit approximates its fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value framework requires the categorization of assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Level 3: Unobservable inputs for the asset or liability, reflecting the reporting entity's own assumptions about the assumptions that market participants would use in pricing

Our assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. We endeavor to use the best available information in measuring fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. See Note 4, *Other Intangible Assets,* for more detail.

Enterprise-Wide Disclosures

Our results of operations for the years ended December 31, 2022 and 2021 represent a single operating and reporting segment referred to as Contract Manufacturing within the EMS industry. Consolidated financial information is available that is evaluated regularly by the chief operating decision maker in assessing performance and allocating resources.

Export sales from our domestic operations represent approximately 4.0% and 3.1% of consolidated net sales for the years ended December 31, 2022 and 2021, respectively.

Net sales by our major EMS industry markets for the years ended December 31, 2022 and 2021 are as follows:

	2022	**2021**
Medical	$ 75,907	$ 63,047
Aerospace and Defense	19,479	16,639
Industrial	38,737	35,482
Total Net Sales	$ 134,123	$ 115,168

Noncurrent assets, excluding deferred taxes, by country are as follows:

	United States	Mexico	China	Total
December 31, 2022				
Property and Equipment, Net	$ 5,109	$ 494	$ 805	$ 6,408
Operating Lease Assets	$ 5,381	2,469	-	$ 7,850
Other Assets	$ 422	-	-	$ 422
December 31, 2021				
Property and Equipment, Net	$ 4,664	$ 454	$ 715	$ 5,833
Operating Lease Assets	$ 5,287	2,800	896	$ 8,983
Other Assets	$ 501	-	-	$ 501

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Foreign Currency Transactions

The functional currency for our Mexico subsidiary is the US dollar. Foreign exchange transaction gains and losses attributable to exchange rate movements related to transactions made in the local currency and on intercompany receivables and payables not deemed to be of a long-term investment nature are recorded in other income (expense). The functional currency for our China subsidiary is the Renminbi ("RMB"). Assets and liabilities of the China operation are translated from RMB into U.S. dollars at period-end rates, while income and expense are translated at the weighted-average exchange rates for the period. The related translation adjustments are reflected as a foreign currency translation adjustment in accumulated other comprehensive loss within shareholders' equity. The total foreign currency translation adjustment decreased shareholders' equity by $ 426 and increased shareholder's equity by $93 for the years ended December 31, 2022 and 2021, respectively.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the Consolidated Statements of Operations. Net foreign currency transaction losses included in the determination of net earnings was $42 and $131 for the years ended December 31, 2022 and 2021, respectively.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This guidance introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The ASU also provides updated guidance regarding the impairment of available-for-sale debt securities and includes additional disclosure requirements. The new guidance is effective for public business entities that meet the definition of a Smaller Reporting Company as defined by the SEC for interim and annual periods beginning after December 15, 2022. We have evaluated the impact of this standard on our consolidated financial statements and related disclosures and conclude it will not be material.

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, 2021 as reported on Form 10-K. In our December 31, 2021 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 consolidated cash flow statement; this activity should be shown on a gross basis. This change in presentation to the consolidated cash flow statement does not impact total operating, investing, or financing cash flows. There was no change to the consolidated statement of income or 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 December 31, 2021 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 periods ended December 31, 2021.

The effect of the immaterial correction of an error on our previously filed audited consolidated financial statements as of December 31, 2021 and for the year then ended is as follows:

Consolidated Statements of Cash Flows

	December 31, 2021		
CASH FLOWS FROM FINANCING ACTIVITIES	As reported	Adjustment	As revised
Net Proceeds from Line of Credit	5,688	(5,688)	-
Proceeds from Line of Credit	-	109,544	109,544
Payments to Line of Credit	-	(103,856)	(103,856)
Principal Payments on Long-Term Debt	(1,128)		(1,128)
Principal Payments on Financing Leases	(664)		(664)
Stock Option Excercises	35		35
Net Cash Provided By Financing Activities	3,931	-	3,931

NOTE 2. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and accounts receivable. With regard to cash, we maintain our excess cash balances in checking accounts at two high-credit quality financial institutions. These accounts may at times exceed federally insured limits. We grant credit to customers in the normal course of business and 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 total accounts receivable. One customer accounted for 26.9% of net sales for both of the years ended December 31, 2022 and 2021. Accounts receivable for one customer was 21.1% and 19.3% at December 31, 2022 and 2021, respectfully.

NOTE 3. REVENUE

Revenue 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. 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 72% and 78% of our revenue for the years ended December 31, 2022 and 2021, respectively. Revenues under these agreements are generally recognized over time using an input measure based upon the proportion of actual costs incurred.

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.

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Contract Assets

Contract assets, recorded as such in the Consolidated Balance Sheet, consist of unbilled amounts related to revenue recognized over time. Significant changes in the contract assets balance during the years ended December 31, 2022 and 2021 was as follows:

Balance outstanding at December 31, 2021	$ 8,698
Increase (decrease) attributed to:	
Amounts transferred over time to contract assets	96,924
Amounts invoiced during the period	(95,640)
Balance outstanding at December 31, 2022	$ 9,982

We expect substantially all of the remaining performance obligations for the contract assets recorded as of December 31, 2022, 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 years ended December 31, 2022 and 2021:

	Year Ending December 31, 2022			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration	Total Net Sales by Market
Medical	$ 51,473	$ 22,288	$ 2,146	$ 75,907
Aerospace and Defense	16,745	1,859	875	19,479
Industrial	28,706	8,541	1,490	38,737
Total net sales	$ 96,924	$ 32,688	$ 4,511	$ 134,123

	Year Ending December 31, 2021			
	Product/ Service Transferred Over Time	Product Transferred at Point in Time	Noncash Consideration	Total Net Sales by Market
Medical	$ 47,285	$ 13,250	$ 2,512	$ 63,047
Aerospace and Defense	14,879	861	899	16,639
Industrial	27,213	6,851	1,418	35,482
Total net sales	$ 89,377	$ 20,962	$ 4,829	$ 115,168

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 4. OTHER INTANGIBLE ASSETS

Finite life intangible assets at December 31, 2022 and 2021 are as follows:

	Customer Relationships	Trade Names	Patents	Total
Balance at January 1, 2021	$ 507	$ 589	$ 77	$ 1,173
Additions	-	-	64	64
Amortization	147	29	-	176
Abandonment Loss	-	560	-	560
Balance at December 31, 2021	$ 360	$ -	$ 141	$ 501
Additions	-	-	71	71
Amortization	144	-	6	150
Balance at December 31, 2022	$ 216	$ -	$ 206	$ 422

In 2021, we determined the fair value of the Devicix tradename was more likely than not at $0 based on management's best estimate and recognized a $560 loss on abandonment of intangible assets.

Intangible assets are amortized on a straight-line basis over their estimated useful lives. The weighted average remaining amortization period of our intangible assets is 1.9 years. Of the patents value at December 31, 2022, $95 are being amortized and $111 are in process and a patent has not yet been received.

Amortization expense of finite life intangible assets was $150 and $176 for the years ended December 31, 2022 and 2021, respectively.

Estimated future annual amortization expense (except projects in process) related to these assets is approximately as follows:

Year	**Amount**
2023	$ 159
2024	87
2025	14
2026	14
2027	14
Thereafter	23
Total	$ 311

NOTE 5. FINANCING ARRANGEMENTS

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

Under the amended Bank of America credit agreement signed December 31, 2021, the line of credit is subject to variations in the Bloomberg Short-Term Bank Yield (BSBY) index rate. Prior to the amendment, the line of credit was subject to variations in LIBOR. Our line of credit bears interest at a weighted-average interest rate of 5.2% and 3.5% as of December 31, 2022 and 2021, respectively. We had borrowings on our line of credit of $6,897 and $9,016 outstanding as of December 31, 2022 and December 31, 2021, respectively. There are no subjective acceleration clauses under the 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. The line of credit is shown net of debt issuance costs of $44 thousand on the consolidated balance sheet for the year ended December 31, 2022.

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, 2022 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 December 31, 2022.

At December 31, 2022 and 2021, we had unused availability under our line of credit of $8,380 and $3,539, respectively, supported by our borrowing base. The line is secured by substantially all of our assets. During 2022, we amended our credit agreement to include the Employee Retention Credit Receivable as security in our line of credit which improves our unused availability which expired on January 15, 2023.

On April 15, 2020, we entered into a Promissory Note with Bank of America, N.A., which provides for an unsecured loan of $6,077 pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus, Aid, Relief, and Economic Security Act and applicable regulations (the "CARES Act") of which funds were received on April 22, 2020. The loan was accounted for as debt until November 3, 2021 when the $6,077 loan and $93 accrued interest was fully forgiven by the SBA. As a result, we recorded a PPP loan forgiveness gain of $6,170 which is included in other income (expense) on the consolidated statements of operations and other comprehensive income for the year ended December 31, 2021.

Our China operation has a financing agreement with China Construction Bank which provides for a line of credit arrangement of 10,000,000 Renminbi (RMB) (approximately 1.5 million USD) that will expire on August 18, 2023. We had no amounts outstanding as of December 31, 2022 and 2021.

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 6. 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 December 31, 2022, we do not have material lease commitments that have not commenced. We did extend and add operating leases for our manufacturing facilities in 2021.

We have financing leases for certain property and equipment used in the normal course of business.

The components of lease expense were as follows:

Lease Cost	December 31, 2022	December 31, 2021
Operating lease cost	$ 2,309	$ 2,291
Finance lease interest cost	63	79
Finance lease amortization expense	730	502
Total lease cost	$ 3,102	$ 2,872

Supplemental balance sheet information related to leases was as follows:

	Balance Sheet Location	December 31, 2022	December 31, 2021
Assets			
Operating lease assets	Operating lease assets	$ 7,850	$ 8,983
Finance lease assets	Property, Plant and Equipment	1,363	2,052
Total leased assets		$ 9,213	$ 11,035
Liabilities			
Current			
Current operating lease liabilities	Current Portion of Operating Lease Obligations	$ 1,155	$ 1,043
Current finance lease liabilities	Current Portion of Finance Lease Obligations	390	601
Noncurrent			
Long-term operating lease liabilities	Long Term Operating Lease Liabilities, Net	7,549	8,695
Long term finance lease liabilities	Long Term Finance Lease Obligations, Net	565	916
Total lease liabilities		$ 9,659	$ 11,255

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Supplemental cash flow information related to leases was as follows:

	December 31, 2022	December 31, 2021
Operating leases		
Cash paid for amounts included in the measurement of lease liabilities	$ 1,721	$ 1,649
Right-of-use assets obtained in exchange for lease obligations	$ 44	$ 1,188

The right-of use-assets obtained in exchange in for lease obligations in the year ended December 31, 2021 was largely due to leasing of additional space in our Suzhou, China facility.

Maturities of lease liabilities were as follows:

	Operating Leases	Finance Leases	Total
2023	1,786	433	2,219
2024	1,515	379	1,894
2025	1,265	103	1,368
2026	1,227	109	1,336
2027	1,256	-	1,256
Thereafter	5,818	-	5,818
Total lease payments	$ 12,867	$ 1,024	$ 13,891
Less: Interest	(4,163)	(69)	(4,232)
Present value of lease liabilities	$ 8,704	$ 955	$ 9,659

The lease term and discount rate at December 31, 2022 were as follows:

Weighted-average remaining lease term (years)	
Operating leases	8.9
Finance leases	2.6
Weighted-average discount rate	
Operating leases	7.7%
Finance leases	5.2%

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 7. RESTRUCTURING CHARGES

In 2021, we recorded restructuring charges of $327 related to the consolidation of our production facilities and closure of our Merrifield, Minnesota facility. With the Merrifield closure, we shifted wire and cable assembly, system-level assembly and printed circuit board (PCB) manufacturing to Nortech's other Minnesota locations. No amounts were accrued as of December 31, 2021. We reduced our workforce by approximately 42 employees as a result of this facility closure.

NOTE 8. INCOME TAXES

In December 2020, the Consolidated Appropriations Act, 2021 ("CAA") was signed into law. The CAA included additional funding through tax credits as part of its economic package for 2021. We evaluated these items in its tax computation as of December 31, 2020 and determined that the items do not have a material impact on our financial statements as of December 31, 2020. Additionally, as part of the Paycheck Protection Program ("PPP") established by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), we received a PPP loan on April 15, 2020. The full amount of the loan and accrued interest were forgiven on November 3, 2021. This extinguishment of debt income is recorded in other income (expense) on the consolidated statements of operations and other comprehensive income for the year ended December 31, 2021. The PPP loan forgiveness will be treated as tax-exempt income due to the provisions in the CAA.

The income tax expense for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Current taxes - Federal	$ 855	$ 401
Current taxes - State	55	17
Current taxes - Foreign	557	441
Income tax expense	$ 1,467	$ 859

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

The statutory rate reconciliation for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Statutory Rate	$ 572	$ 1,606
State Income Tax	41	14
Effect of foreign operations	71	110
Change in State Deferred Rate	29	(39)
Valuation Allowance	587	472
PPP Loan Forgiveness	-	(1,276)
US Permanent differences	(28)	3
Federal Tax Credits	(272)	(37)
Global Intangible Low-Taxed Income Effect	301	391
Return to provision - credits, perm diffs	9	(481)
Withholding Tax	122	-
IRS Payable	17	121
Other	18	(25)
	$ 1,467	$ 859

Income and loss from operations before income taxes was derived from the following sources:

	2022	2021
Domestic	$ 990	$ 6,072
Foreign	2,487	1,941
	$ 3,477	$ 8,013

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Deferred tax (liabilities) assets at December 31, 2022 and 2021, consist of the following:

	2022	2021
Deferred Tax		
Allowance for uncollectable accounts	$ 81	$ 80
Inventories reserve	263	303
Accrued vacation	127	135
Accrued bonus	462	274
Stock-based compensation and equity appreciation rights	159	135
Other Accruals	548	547
Lease Accounting ASC 842 Lease Liability	1,351	1,555
Capitalized Research Expenses	318	-
Net operating loss carryforwards	-	101
Tax credit carryforwards	156	162
Unrealized Foreign Currency Gain	20	22
Intangibles	515	569
COGS Rev Rec Adjustment	1,864	1,776
COGS Offset Adjustment	(1,875)	(1,807)
Other	235	10
Total	4,224	3,862
Valuation allowance	(2,563)	(1,976)
Deferred tax assets	1,661	1,886
Accumulated Other Comprehensive Income	(56)	(297)
Lease Accounting ASC 842 Lease Asset	(1,301)	(1,518)
Prepaid Expenses	(143)	-
Property and equipment	(161)	(71)
Deferred tax liabilities	(1,661)	(1,886)
Net deferred tax assets	$ -	$ -

We currently have significant deferred tax assets as a result of temporary differences between taxable income on our tax returns and U.S. GAAP income. A deferred tax asset generally represents future tax benefits to be received when temporary differences previously reported in our financial statements become deductible for tax purposes. We assess the realizability of our deferred tax assets and the need for a valuation allowance based on guidance provided in current financial accounting standards.

Significant judgment is required in determining the realizability of our deferred tax assets. The assessment of whether valuation allowances are required considers, among other matters, the nature, frequency and severity of any current and cumulative losses, forecasts of future profitability, the duration of statutory carry forward periods, our experience with loss carry forwards not expiring unused and tax planning alternatives.

After considering all available evidence, both positive and negative, we have concluded that a valuation allowance is needed for all our United States based deferred tax assets due to the history of operating losses sustained in the past three years.

At December 31, 2022, for U.S. state purposes, we have Minnesota R&D credit carry forwards of $172, which begin to expire in 2027.

The tax effects from uncertain tax positions can be recognized in our consolidated financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The following tables set forth changes in our total gross unrecognized tax benefit liabilities, excluding accrued interest, for the years ended December 31, 2022 and 2021 (in thousands):

Balance at December 31, 2021	$	50
Tax Positions - Additions		-
Tax Positions - Reductions		-
Balance at December 31, 2022	$	50

Our policy is to accrue interest related to potential underpayment of income taxes within the provision for income taxes. The liability for accrued interest as of December 31, 2022 and 2021 was not significant. Interest is computed on the difference between our uncertain tax benefit positions and the amount deducted or expected to be deducted in our tax returns.

We are subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of December 31, 2022, our 2018 IRS audit was finalized.

NOTE 9. 401(K) RETIREMENT PLAN

We have a 401(k) profit sharing plan (the 401(k) Plan) for our employees. The 401(k) Plan is a defined contribution plan covering substantially all of our U.S. employees. Employees are eligible to participate in the Plan after completing three months of service and attaining the age of 18. Employees are allowed to contribute up to 60% of their wages to the 401(k) Plan. Historically we have matched 25% of the employees' contributions up to 6% of covered compensation. We made contributions, net of forfeitures, of approximately $301 and $276 during the years ended December 31, 2022 and 2021, respectively.

NOTE 10. INCENTIVE PLANS

In May 2017, the shareholders approved the 2017 Stock Incentive Plan which authorized the issuance of 350,000 shares. An additional 50,000 and 175,000 shares were authorized by the shareholders in March 2020 and May 2022, respectively. There were 115,000 options and restricted stock units and 49,000 options granted during the years ended December 31, 2022 and 2021, respectively.

Stock Options

We estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the consolidated statements of operations over the requisite service periods. Because share-based compensation expense is based on awards that are ultimately expected to vest, share-based compensation expense will be reduced to account for estimated forfeitures. We estimate forfeitures at the time of grant and revise the estimate, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We used the Black-Scholes option-pricing model to calculate the fair value of option-based awards. Our determination of fair value of option-based awards on the date of grant using the Black-Scholes model is affected by our stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, our expected stock price, volatility over the term of the awards, risk-free interest rate, and the expected life of the options. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of our stock options. The expected volatility and holding period are based on our historical experience. For all grants, the amount of compensation expense recognized has been adjusted for an estimated forfeiture rate, which is based on historical data.

We granted 21,000 market condition options to our Chief Executive Officer during the twelve months ended December 31, 2022. The market condition options vest if certain stock prices are exceeded between February 27, 2024 and February 27, 2028. We granted 73,000 service-based options during the twelve months ended December 31, 2022. There were 49,000 stock options granted during the twelve months ended December 31, 2021.

Total compensation expense related to stock options was $237 for the twelve months ended December 31, 2022. Total compensation expense related to stock options was $116 for the twelve months ended December 31, 2021. As of December 31, 2022, there was $762 of unrecognized compensation which will vest and expense over the next 3.61 years.

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

A summary of option activity as of and for the years ended December 31, 2022 and 2021 as follows:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding – January 1, 2021	362,640	$ 3.96		
Granted	49,000	8.50		
Exercised	(13,400)	3.43		
Cancelled	(10,740)	3.42		
Outstanding – December 31, 2021	387,500	$ 4.57	7.17	$ 1,225
Granted	94,000	11.18		
Exercised	(19,800)	3.40		
Cancelled	(9,000)	4.19		
Outstanding – December 31, 2022	452,700	$ 5.97	6.87	$ 2,855
Exercisable on December 31, 2022	223,300	$ 4.11	5.76	$ 1,817

Restricted Stock Units

During the twelve months ended December 31, 2022, we granted 21,000 restricted stock units (“RSUs”) under our 2017 Stock Incentive Plan to non-employee directors which vest over two years. Total compensation expense related to the RSUs were $97 for the twelve months ended December 31, 2022. There was no compensation expense related to RSUs for the twelve months ended December 30, 2021. Total unrecognized compensation expense related to the RSUs was $155, which will vest over the next 1.24 years. The RSUs granted in the twelve months ended December 31, 2022 had an average grant price of $12.00 per share with a weighted average remaining contractual term of 9.24 years. No RSUs vested during the twelve months ended December 31, 2022.

Equity Appreciation Rights Plan

In November 2010, the Board of Directors approved the adoption of the Nortech Systems Incorporated Equity Appreciation Rights Plan (the 2010 Plan). The total number of Equity Appreciation Right Units (Units) the Plan can issue shall not exceed an aggregate of 1,000,000 Units as amended and restated on March 11, 2015 and approved by the shareholders on May 6, 2015. The 2010 Plan provides that Units issued shall fully vest three years from the base date as defined in the agreement unless terminated earlier. Units give the holder a right to receive a cash payment equal to the appreciation in book value per share of common stock from the base date, as defined, to the redemption date. Unit redemption payments under this plan shall be paid in cash within 90 days after we determine the book value of the Units as of the calendar year immediately preceding the redemption date. The Units are adjusted to each reporting period based on the expected appreciation of the Units as defined in the Plan.

During the years ended December 31, 2022 and 2021, no Units were granted. Total compensation expense related to the vested outstanding Units based on the estimated appreciation over their remaining terms was approximately $0 and $143 for the year ended December 31, 2022 and 2021, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation
We are subject to various legal proceedings and claims that arise in the ordinary course of business. In our opinion, the amount of any ultimate liability with respect to these actions will not materially affect our consolidated financial statements or results of operations.

Change of Control Agreements
Since 2002, we entered into Change of Control Agreements (the Agreement(s)) with certain key executives (the Executive(s)). The Agreements provide an inducement for each Executive to remain as an employee in the event of any proposed or anticipated change of control in the organization, including facilitating an orderly transition, and to provide economic security for the Executive after a change in control has occurred.

In the event of an involuntarily termination in connection with a change of control as defined in the agreements, each Executive would receive their base salary, annual bonus at time of termination, and continued participation in health, disability and life insurance plans for a period of three years for officers and two years for all other participants.

NOTE 12. EMPLOYEE RETENTION CREDIT

We qualified for Employee Retention Credits on qualified wages paid in the first and second quarters of 2021 and filed for both credits in the third quarter of 2021. We recognize government grants for which there is a reasonable assurance of compliance with grant conditions and receipt of credits. In 2021, there was $5,209 related to Employee Retention Credits recognized as a reduction of the associated costs within cost of goods sold of $4,670, selling of $125, and general and administrative expenses of $414 on the consolidated statements of operations. We received payment on the Employee Retention Credit for the first quarter of 2021 of $2,559 in the fourth quarter of 2022. The remaining Employee Retention Credits Receivable of $2,650 is recorded on the Consolidated Balance Sheets.

During the year ended December 31, 2022, the Company received the ERC related to the first quarter of 2021 of $2,559. The remaining Employee Retention Credits Receivable of $2,650 is recorded on the consolidated balance sheets as of December 31, 2022.

NOTE 13. RELATED PARTY TRANSACTIONS

David Kunin, our Chairman, is a minority owner of Abilitech Medical, Inc. Mr. Kunin also was a consultant to Abilitech, which relationship ended on March 1, 2021. Abilitech paid the Company $247 and $1,079 in the years ended December 31, 2022 and 2021, respectively, for delivery of medical products. We have exposure to Abilitech which includes $ 141 of accounts receivable and $113 of inventory. We do not believe that Abilitech will pay the Company on accounts receivable or for inventory and we have fully reserved for such exposure. The Company believes that transactions with Abilitech are on terms comparable to those that the Company could reasonably expect in an arm's length transaction with an unrelated third party.

David Kunin, our Chairman, is a minority owner (less than 10%) of Marpe Technologies, LTD an early-stage medical device company dedicated to the early detection of skin cancer through full body scanners. Mr. Kunin is also a member of the Board of Directors of Marpe Technologies. The Company worked 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 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 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 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 recoup the value of services provided to Marpe for which is not fully paid. 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 twelve months ended December 31, 2022 and 2021, we recognized revenue of $440 and $148, 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 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K, the Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-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.

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to management and the board of directors regarding the effectiveness of our internal control processes over the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We have assessed the effectiveness of our internal controls over financial reporting as of December 31, 2022. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework of 2013. Based on our assessment, we concluded that, as of December 31, 2022, our internal control over financial reporting was effective.

Changes in Internal Controls

There was no change in the Company's internal control over financial reporting that occurred during our most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the directors and executive officers of the Registrant will be included in the Registrant's proxy statement relating to its Annual Meeting of Shareholders to be held May 10, 2023 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2022, the end of our fiscal year, and said portions of the proxy statement are incorporated herein by reference.

The company has adopted a code of conduct applicable to all officers, directors, and employees. A copy of this code of conduct will be provided to any person, without charge, upon request from Nortech c/o Chief Financial Officer 7550 Meridian Circle N # 150, Maple Grove, MN 55369.

Item 11. Executive Compensation

Information regarding executive compensation of the Registrant will be included in the Registrant's proxy statement relating to its Annual Meeting of Shareholders to be held May 10, 2023 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2022, the end of our fiscal year, and said portions of the proxy statement are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management of the Registrant will be included in the Registrant's proxy statement relating to its Annual Meeting of Shareholders to be held May 10, 2023 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2022, the end of our fiscal year, and said portions of the proxy statement are incorporated herein by reference.

Information regarding executive compensation plans (including individual compensation arrangements) as of the end of the last fiscal year, on two categories of equity compensation plans (that is, plans that have been approved by security holders and plans that have not been approved by security holders) will be included in the Registrant's proxy statement relating to its Annual Meeting of Shareholders to be held May 10, 2023 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2022, the end of our fiscal year, and said portions of the proxy statement are incorporated herein by reference.

The following table provides information about our equity compensation plans (including individual compensation arrangements) as of December 31, 2022.

Plan category	Number of securities to be issued upon the exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) (2)
Equity compensation plans approved by security holders	232,000	$ 5.97	28,967
Equity compensation plans not approved by security holders	-	-	-
Total	232,000	$ 5.97	28,967

(1) Represents common shares issuable upon the exercise of outstanding options granted under the 2017 Incentive Compensation Plan (the 2017 Plan).

(2) Represents common shares remaining available for issuance under the 2017 Plan of 28,967.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be included in the Registrant's proxy statement relating to its Annual Meeting of Shareholders to be held May 10, 2023 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2022, the end of our fiscal year, and said portions of the proxy statement are incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be included in the Registrant's proxy statement relating to its Annual Meeting of Shareholders to be held May 10, 2023 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2022, the end of our fiscal year, and said portions of the proxy statement are incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statements Schedules

1. Consolidated Financial Statements - Consolidated Financial Statements and related Notes are included in Part II, Item 8, and are identified in the Index on Page 25.

2. Consolidated Financial Statement Schedule - The following financial statement schedule and the Auditors' report thereon is included in this Annual Report on Form 10-K:

   All schedules are omitted because it is not required information or the information is presented in the consolidated financial statements or related notes.

3. The following exhibits are incorporated herein by reference:

3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to Form S-1 filed July 16, 1996 (File No. 333-00888)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-K filed on March 19, 2020)
10.1	Amendment dated November 5, 2014 to Employment Agreement with Michael Degen (incorporated by reference to Exhibit 99.1 to Form 8-K filed November 7, 2014)**
10.2	Lease Agreement dated April 1, 2015 between the Company and LSOP 3 MN 3, LLC (incorporated by reference to Form 8-K filed April 9, 2015)
10.3	Lease Agreement dated November 12, 2015 between the Company and Suzhou Industrial Park Biotech Development Co., Ltd. (incorporated by reference to Form 10-K filed March 21, 2016).
10.4	2017 Stock Incentive Plan approved by shareholders May 3, 2017 (incorporated by reference to Exhibit A to the Definitive Proxy Statement filed March 22, 2017).**
10.5	Amended and Restated Employment Agreement with Richard Wasielewski dated May 15, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K filed May 19, 2017).**
10.6	Loan and Security Agreement with Bank of America N.A. dated June 15, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 21, 2017)
10.7	First Amendment dated December 29, 2017 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.2 to Form 8-K filed January 8, 2018)
10.8	Lease Agreement dated February 21, 2018 by and between Manufacturing Assembly Solutions of Monterrey, Inc., a wholly owned Mexican subsidiary of the Company, and OPERADORA STIVA, S.A. DE C.V. (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 27, 2018)

10.9 Amendment to the Amended and Restated Employment Agreement with Richard Wasielewski dated December 19, 2018 (incorporated by reference to Exhibit 10.2 to Form 8-K filed December 21, 2018).**

10.10 Second Amendment dated August 13, 2019 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.1 to Form 10-Q filed August 14, 2019).

10.11 Employment Agreement with John Lindeen dated September 9, 2019 (incorporated by reference to Exhibit 10.2 to Form 8-K filed September 11, 2019)

10.12 Third Amendment dated November 12, 2019 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 12, 2019).

10.13 First Amendment to Lease Agreement dated September 17, 2018 between the Company and AR Meridian Circle Owner, LLC, as successor to LSOP 3 MN 3, LLC. *

10.14 Purchase and Sale Agreement between the Company and Essjay Investment Company, LLC dated June 24, 2020 (incorporated by reference to Exhibit 10.1 to Form 10-Q filed August 11, 2020)

10.15 Lease Agreement between the Company and Essjay Investment Company, LLC dated August 27, 2020 relating to the Company's Bemidji facility (incorporated by reference to Exhibit 10.1 to Form 8-K filed September 1, 2020)

10.16 Lease Agreement between the Company and Essjay Investment Company, LLC dated August 27, 2020 relating to the Company's Mankato facility (incorporated by reference to Exhibit 10.2 to Form 8-K filed September 1, 2020)

10.17 Fourth Amendment dated August __,2020 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.3 to Form 8-K filed September 1, 2020).

10.18 Employment Agreement with Christopher D. Jones dated November 2, 2020 (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 6, 2020).**

10.19 First Amendment to Employment Agreement with Jay Miller dated November 11, 2020 (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 12, 2020).**

10.20 Fifth Amendment dated December 1, 2020 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 14, 2021).

10.21 Sixth Amendment dated December 31, 2021 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.2 to Form 8-K filed January 5, 2022).

10.22 Employment Agreement with Jay D. Miller dated February 27, 2022 (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 3, 2022).**

10.23 Seventh Amendment dated March 4, 2022 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.2 to Form 8-K filed March 10, 2022).

10.24 Eighth Amendment dated September 9, 2022 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 105 to Form 10-Q filed November 9, 2022).

21 Subsidiaries of Nortech Systems Incorporated*

23 Consent of Baker Tilly US, LLP*

31.1 Certification of the Chief Executive Officer and President 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.*

32.1 Certification of the Chief Executive Officer and President and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

101 Financial statements from the annual report on Form 10-K for the year ended December 31, 2022, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements.*

104 Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

* Filed electronically herewith.
** Management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
Registrant

By: *\/s\/ Jay D. Miller* March 17, 2023
Jay D. Miller
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: */s/ Jay D. Miller* March 17, 2023
Jay D. Miller
President and Chief Executive Officer (principal executive officer) and Director

By: */s/ Christopher D. Jones* March 17, 2023
Christopher D. Jones
Chief Financial Officer (principal financial and accounting officer)

By: */s/ David B. Kunin* March 17, 2023
David B. Kunin, Chairman and Director

By: */s/ Stacy A. Kruse* March 17, 2023
Stacy A. Kruse, Director

By: */s/ Ryan P. McManus* March 17, 2023
Ryan P. McManus, Director

By: */s/ Steven J. Rosenstone* March 17, 2023
Steven J. Rosenstone, Director

By: */s/ Philip I. Smith* March 17, 2023
Philip I. Smith, Director

By: */s/ Dan Sachs* March 17, 2023
Dan Sachs, Director

By: */s/ David Graff* March 17, 2023
David Graff, Director

INDEX TO EXHIBITS

DESCRIPTIONS OF EXHIBITS

3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to Form S-1 filed July 16, 1996 (File No. 333-00888)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-K filed on March 19, 2020)
10.1	Amendment dated November 5, 2014 to Employment Agreement with Michael Degen (incorporated by reference to Exhibit 99.1 to Form 8-K filed November 7, 2014)**
10.2	Lease Agreement dated April 1, 2015 between the Company and LSOP 3 MN 3, LLC (incorporated by reference to Form 8-K filed April 9, 2015)
10.3	Lease Agreement dated November 12, 2015 between the Company and Suzhou Industrial Park Biotech Development Co., Ltd. (incorporated by reference to Form 10-K filed March 21, 2016).
10.4	2017 Stock Incentive Plan approved by shareholders May 3, 2017 (incorporated by reference to Exhibit A to the Definitive Proxy Statement filed March 22, 2017).**
10.5	Amended and Restated Employment Agreement with Richard Wasielewski dated May 15, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K filed May 19, 2017).**
10.6	Loan and Security Agreement with Bank of America N.A. dated June 15, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 21, 2017)
10.7	First Amendment dated December 29, 2017 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.2 to Form 8-K filed January 8, 2018)
10.8	Lease Agreement dated February 21, 2018 by and between Manufacturing Assembly Solutions of Monterrey, Inc., a wholly owned Mexican subsidiary of the Company, and OPERADORA STIVA, S.A. DE C.V. (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 27, 2018)
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10.21 Sixth Amendment dated December 31, 2021 to Loan and Security Agreement between the Company and Bank of America N.A. (incorporated by reference to Exhibit 10.2 to Form 8-K filed January 5, 2022).

10.22 Employment Agreement with Jay D. Miller dated February 27, 2022 (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 3, 2022).**

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21	Subsidiaries of Nortech Systems Incorporated*
23	Consent of Baker Tilly US, LLP*
31.1	Certification of the Chief Executive Officer and President pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.*
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32.1	Certification of the Chief Executive Officer and President and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	Financial statements from the annual report on Form 10-K for the year ended December 31, 2022, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements.*
104	Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)
*	Filed electronically herewith.
**	Management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

Exhibit 21

Subsidiaries of Nortech Systems Incorporated

The following are wholly owned subsidiaries of the Company as of December 31, 2022.

Subsidiary	Jurisdiction of Organization
Manufacturing Assembly Solutions of Monterrey, Inc.	Mexico
Nortech Systems, Hong Kong Company, Limited	Hong Kong
Nortech Systems, Suzhou Company, Limited	China

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (No. 333-223959 and 333-237293) of Nortech Systems Incorporated on Form S-8 of our report dated March 17, 2023, relating to our audit of the consolidated financial statements, which appears in this annual report on Form 10-K of Nortech Systems Incorporated for the year ended December 31, 2022.

/s/ BAKER TILLY US, LLP

Minneapolis, Minnesota
March 17, 2023

Exhibit 31.1

Certification

I, Jay D. Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Nortech Systems, Inc. and Subsidiary;

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 officer(s) 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: March 17, 2023

By: /s/ Jay D. Miller
Jay D. Miller
President and Chief Executive Officer
Nortech Systems Incorporated

EXHIBIT 31.2

Certification

I, Christopher D. Jones, certify that:

1. I have reviewed this report on Form 10-K of Nortech Systems, Inc. and Subsidiary;

2. Based on my knowledge, this annual 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 officer(s) 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: March 17, 2023

By: /s/ Christopher D. Jones
Christopher D. Jones
Vice President and Chief Financial Officer
Nortech Systems Incorporated

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jay D. Miller, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Nortech Systems Incorporated on Form 10-K for the year ended December 31, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Nortech Systems Incorporated.

March 17, 2023	By: /s/ Jay D. Miller
	Jay D. Miller
	Chief Executive Officer and President
	Nortech Systems Incorporated

I, Christopher D. Jones, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Nortech Systems Incorporated on Form 10-K for the year ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Nortech Systems Incorporated.

March 17, 2023	By: /s/ Christopher D. Jones
	Christopher D. Jones
	Vice President and Chief Financial Officer
	Nortech Systems Incorporated