UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2023
or

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

Commission file number 000-09587

ELECTRO-SENSORS, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**41-0943459**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6111 Blue Circle Drive
Minnetonka, Minnesota 55343-9108
(Address of principal executive offices, including zip code)

(952) 930-0100
(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	ELSE	**Nasdaq Capital Market**

Securities registered under Section 12(g) of the Exchange 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 ☒

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

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

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

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

Large accelerated filer	☐	Accelerated filer ☐
Non-accelerated filer	☒	Smaller reporting company ☒
		Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under §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. ☐

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

The aggregate market value of the voting stock held by non-affiliates (persons other than officers, directors, or holders of more than 5% of the outstanding stock) of the registrant was approximately $5,400,000 based upon the closing price of its common stock as reported on The Nasdaq Stock Market® on June 30, 2023.

The number of shares outstanding of the registrant’s Common Stock, $0.10 par value, on March 19, 2024 was 3,428,021.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III of this Form 10-K is incorporated by reference from the registrant’s Definitive Proxy Statement, which will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ELECTRO-SENSORS, INC.
Form 10-K for the Year Ended December 31, 2023

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PART I

Item 1. Business.

Introduction

Electro-Sensors, Inc. (“we,” “us,” “our,” the “Company” or “ESI”) manufactures and sells industrial production monitoring and process control systems.

In addition, we may periodically make strategic investments in other businesses and companies, including investments that we believe would facilitate the development of technology complementary to our existing products or investments that we believe present good opportunities for the Company and its shareholders.

ESI was incorporated in Minnesota in July 1968. Our executive offices are located at 6111 Blue Circle Drive, Minnetonka, Minnesota, 55343-9108. Our telephone number is (952) 930-0100.

Products

We manufacture a complete line of monitoring and control systems for a wide range of industrial machine applications. The systems measure machine production and operation rates, as well as regulate the speed of related machines in production processes.

Our goal is to develop meaningful annual updates to our standard products.

We have a sales agreement with Motrona GmbH, a German control and interface devices manufacturer, under which we have the right to distribute Motrona products in the United States. These products interface with our products on various applications for motion monitoring.

Speed Monitoring Systems

Our speed monitoring systems compare revolutions per minute or speed against acceptable rates as determined by our customers. These systems vary in complexity, from simple systems that detect slow-downs or stoppages, to sophisticated systems that warn of deviations from precise tolerances and that permit various subsidiary operations to be determined through monitoring shaft speed.

Our speed monitoring systems also include a line of products that measure production counts or rates, such as number of parts, gallons per minute, or board feet. These speed monitoring systems include alarm systems, tachometers, and other devices that translate impulses from the sensors into alarm signals utilized by our customers.

We have several products used in drive control systems that regulate the speed of motors on related machines in a production sequence to ensure that the performances of various operations are coordinated. The products consist of a line of digital control products for motors that require a complete closed loop PID (Proportional Integral Derivative) control. The closed loop controllers coordinate production speed among process motors and reduce waste.

Temperature Application Products

Our main temperature applications include bearing, gear box, and motor temperature monitoring sensors. These sensors alert an operator when the temperature exceeds or is less than a specified temperature.

Position Application Products

We also offer production monitoring devices that include a belt alignment and slide gate position monitor. The belt alignment monitor is used to determine if a belt is tracking correctly. The slide gate position monitor is used in plant operations to provide feedback of the position of a slide gate.

Vibration Monitoring Products

Our vibration monitors alert operators when the vibration of a machine in a production system exceeds or is less than a specified level.

Tilt Switches

A tilt switch is designed to alert the operator when a storage bin or production system reaches a certain capacity.

Hazard Monitoring Systems

Electro-Sentry We offer the Electro-Sentry 1™ and Electro-Sentry 16™ hazard monitoring systems, which integrate our sensors for monitoring temperature, belt alignment, and shaft speed with programmable control logic to create a complete hazard monitoring system. These systems enable our customers to locate which part of their material handling system is operating incorrectly, typically in less than ten seconds.

HazardPRO™ We market our wireless hazard technology monitoring system under the HazardPRO product name. This integrated hazard monitoring system captures and displays key information in an intuitive format allowing the user to quickly and comprehensively understand the status and history of the user's processes. The simple but powerful interface provides insight into a customer's internal operations as they strive to maximize safety and facility runtime, while minimizing costs associated with unscheduled maintenance and unplanned downtime. The HazardPRO system has been approved for use in hazardous dust environments by a third-party nationally recognized testing laboratory.

The HazardPRO site system manager software efficiently collects data from all sensors in a customer's monitoring system, with effective wireless monitoring across a widely dispersed area. We have also added a complete antenna pair mounting system to the product line for easy and accurate customer installation.

We expect to continue to expend resources to develop new products and to market new and existing products for use in a wide variety of monitoring applications.

Our corporate website, www.electro-sensors.com, provides significant product application information for our existing and prospective customers and our sales partners. Information on our website is not incorporated by reference herein and is not a part of this Form 10-K.

Marketing and Distribution

We sell our products primarily through both our internal sales team and a number of manufacturer's representatives and distributors, both nationally and internationally. In 2023, we had international sales through distributors in the following countries; Canada, Mexico, Brazil, Chile, Peru, United Kingdom, Ukraine, Egypt, South Africa, India, Australia, China, the Republic of Korea, Vietnam, Malaysia, Philippines, Thailand, and Singapore. Sales to customers outside the United States represented approximately 10% of revenues in 2023. We sell our products under the Electro-Sensors, Inc. brand as a range of products from simple sensors to complex integrated monitoring systems. Our customers operate in a wide range of industries, including grain/feed/milling, bulk materials, manufacturing, food products, ethanol, power generation, and other processing industries.

We continue to explore new industries and applications within the industries we serve to expand sales and may also consider acquiring compatible businesses or product lines as part of our growth strategy. In addition, we may make strategic investments that we believe present good opportunities for the Company and its shareholders.

In addition to enhanced operational safety, we believe that a wide variety of organizations could achieve significant savings in both time and materials by adding production monitoring and drive control technology to existing processes to coordinate the operation of related machines and help prevent costly downtime. We sell our products into both the "retro-fit" market and into new manufacturing or processing systems.

We advertise in national industrial periodicals that cover a range of industries and attend several local, national and international industry tradeshows throughout the year. We also use our corporate website and other related industry websites for advertising and marketing purposes.

Competition

We face substantial competition in the sale of our production monitoring sensors and systems from a broad range of industrial and commercial businesses. Among our competitors are 4B Components Ltd., Maxi-Tronic, Inc., Siemens Corporation, and Ag Growth International Inc. (AGI). We believe our competitive advantages include our products' superior design and quality, and the fact that we sell our products as ready-to-install units that can be used in a wide range of applications. Our major challenges include the fact that several of our competitors are larger, may have better established names, have a broader range of sensing instruments, and have larger sales forces and capital resources.

Suppliers

We purchase parts and materials for our systems from various manufacturers and distributors. In some instances, these materials are manufactured in accordance with our proprietary designs. Multiple sources of these parts and materials are generally available, and we typically do not depend on any single source for these supplies and materials. In 2023, we continued to experience disruptions in our supply chain, resulting in difficulty sourcing parts and increased costs on parts and materials. In some situations, we have and are modifying product designs to accommodate new components that are more readily available or have a lower cost. There is no guarantee that we have and will continue to be successful in updating these designs and sourcing alternative components and material. We may also continue to experience transportation and freight availability delays, which may make it difficult to have materials and components shipped to us or our products shipped to customers, in a timely and cost-effective manner. We continue to closely monitor lead times and availability of components. We are continually assessing our inventory levels and may take actions as necessary to minimize disruptions to our supply chain such as maintaining larger levels of inventories than we have in the past, but these actions may not be successful if significant disruptions occur.

Customers

We do not depend upon a single or a few customers for 10% or more portion of our sales.

Patents, Trademarks and Licenses

The Company relies on a combination of patent, trademark, and trade secret laws to establish proprietary right in its products.

We have registered the name “Electro-Sensors” as a trademark with the U.S. Patent and Trademark Office (“USPTO”), Reg. No. 1,142,310. We believe this trademark has been and will continue to be useful in developing and protecting market recognition for our products. We established the HazardPRO trademark in the first quarter of 2014 and intend to register this trademark.

We hold six patents relating to our production monitoring systems. We believe strongly in protecting our intellectual property and have a long history of obtaining patents, when available, in connection with our research and product development programs. We also rely upon trade secrets and proprietary know-how.

We seek to protect our trade secrets and proprietary intellectual property, including know-how, in part, through confidentiality agreements with employees, consultants, and other parties. However, we cannot ensure these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known or independently developed by competitors.

Seasonality

Generally, the Company experiences seasonality in the sale of its products with the second and third calendar quarters historically the strongest.

Business Development Activities

We continue to seek growth opportunities, both internally through our existing portfolio of products, technologies and markets, as well as externally through technology partnerships or related-product or business acquisitions. In addition, we may make strategic or other investments that we believe present opportunities for the Company and its shareholders. On June 13, 2022 we announced that we had entered into a merger agreement with Mobile X Global, Inc. On January 30, 2023, we announced that the merger agreement had been terminated and that the Company's Board of Directors had established a special committee to explore and pursue business development and other strategic alternatives.

Governmental Approvals

Although we are not required to obtain governmental approval of our products, we choose to obtain certain third-party certifications to meet our customers' needs. These certifications may expand our market opportunities in certain industries.

Effect of Governmental Regulations

We do not believe that any existing or proposed governmental regulations will have a material effect on our business.

Research and Development

We invest in research and development programs to develop new products and to integrate state-of-the-art technology into our existing products. We undertake development projects based upon the identified specific needs of the markets we serve. Our "Management's Discussion and Analysis of Financial Condition and Results of Operations" section further describes our research and development expenditures.

Our future success depends in part upon our ability to develop new products in our varying segments. Difficulties or delays in our ability to develop, produce, test, market, and deliver new products could have a material adverse effect on future sales growth.

Compliance with Environmental Laws

Compliance with federal, state and local environmental laws has only a nominal effect on current or anticipated capital expenditures and has had no material effect on earnings or on our competitive position.

Human Capital

As of December 31, 2023, the Company had 35 employees, all of whom are full-time and based in the United States. We consider our relations with our employees to be good. None of our employees are currently represented by a labor union.

The Company views its employees and culture as keys to its success. The Company aims to attract and retain qualified personnel and provides wages and benefits that are competitive locally to reward employees for performance. The Company values innovation, inclusion and diversity, safety and engagement as we believe these are keys to attract, develop, and retain the best talent.

The health and safety of our employees is our top priority. We believe the Company has generally been successful implementing appropriate measures to protect the health and safety of its employees while maintaining business continuity and high levels of service to our customers.

Our ability to maintain a competitive position and to continue to develop and market new products depends, in part, on our ability to retain key employees and qualified personnel. If we are unable to retain our key employees, or recruit and train others, our product development, marketing and sales could be adversely affected.

Fluctuations in Operating Results

We have experienced fluctuations in our historical operating results and expect to experience fluctuations in the future. These fluctuations may affect the market price of our common stock. Sales can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include: product competition and acceptance, timing of customer orders, cancellation of orders, the mix of products sold, supply chain disruptions, downturns in the markets we serve, geopolitical events, and economic disruptions such as weather-related events. In addition, we have experienced and may continue to experience increased costs in materials and labor which may impact our profitability. Because fluctuations may occur, we caution investors that results of our operations for recent periods may not accurately predict how we will perform in the future. We cannot ensure that we will achieve revenue or earnings growth.

Expending Funds for Changes in Industry Standards, Customer Preferences or Technology

Our business depends on our periodically introducing new and enhanced products and solutions for customer needs. Our product development efforts require us to commit financial resources, personnel and time, usually in advance of significant market demand for these products. In order to compete, we must anticipate both future demand and the technology available to meet that demand. We cannot ensure that our research and development efforts will lead to new products or product innovations that can be made available to or will be accepted by the market.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act. The Securities and Exchange Commission, or SEC, maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information that we file with the SEC electronically. Copies of our reports on Form 10-K, Forms 10-Q, Forms 8-K, and amendments to those reports may also be obtained, free of charge, electronically through our investor relations website located at https://www.electro-sensors.com/about/investor-info as soon as reasonably practical after we file such material with, or furnish it to, the SEC. Information on our website is not incorporated by reference into this report and should not be considered part of this document.

Forward-Looking Statements

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

Our forward-looking statements generally relate to our growth strategy, future financial results, product development and sales efforts. We make forward-looking statements throughout this Annual Report, but primarily in this Item 1 and Item 7 - *Management's Discussion and Analysis of Financial Condition and Results of Operations.* These include statements relating to our beliefs and expectations and intentions with respect to (i) our growth and profitability, (ii) our marketing and product development, (iii) our ability to continue to obtain parts and materials for our products from various manufacturers and distributors in a timely manner and at reasonable prices, (iv) the value of our intellectual property, (v) our competitive position in the marketplace, (vi) the effect of governmental regulations on our business, (vii) our employee relations, (viii) the adequacy of our facilities, (ix) our intention to develop new products, (x) the possibility of us acquiring compatible businesses or product lines as part of our growth strategy, and (xi) our future cash requirements and use of cash.

Forward-looking statements cannot be guaranteed and our actual results may vary materially due to the uncertainties and risks, known and unknown, associated with these statements, including our ability to successfully develop new products and manage our cash requirements. We undertake no obligation to update any forward-looking statements. We wish to caution investors that the following important factors, among others, in some cases have affected and in the future could affect our actual results of operations and cause these results to differ materially from those anticipated in forward-looking statements made in this document and elsewhere by us or on our behalf. We cannot foresee or identify all factors that could cause actual results to differ from expected or historical results. As such, investors should not consider any list of these factors to be an exhaustive statement of all risks, uncertainties or potentially inaccurate assumptions. These factors include our ability to:

- successfully use our cash and liquid assets to develop or acquire new or complementary products or business lines to increase our revenue and profitability;
- comply with any new government regulations that may be adopted to require companies to reduce carbon emissions or to disclose their carbon footprint, including the carbon footprint of components to manufacturers;
- ensure that our operational systems, security systems and infrastructure, as well as those of third-party vendors, remain free from viruses or cyberattacks;
- quickly and successfully adapt to changing industry technological standards;
- comply with existing and changing industry regulations;
- attract and retain key personnel, including senior management;
- offset the effect of inflation on component prices and labor by increasing prices on finished products;
- adapt to changing economic conditions and manage downturns or disruptions in the economy in general;
- keep pace with competitors, some of whom are much larger and have substantially greater resources than us;
- respond to geopolitical and macroeconomic events that are beyond our control, such as any downturn in the economy caused by (i) a government shutdown similar to those that have occurred over the past decade, (ii) sovereign monetary policy and the resulting impact on interest rates, or (iii) unrest in the Middle East and the war between Russia and the Ukraine;
- continue to procure components for our products, and maintain a steady and reliable workforce, as described below under "Supply Chain and Labor Dynamics"; and
- the fact that we cannot guarantee that the special committee our Board formed in January 2023 to explore and pursue business development and other strategic alternatives will be successful in enhancing shareholder value.

Item 1A. Risk Factors.

This item is not required for smaller reporting companies, but above under "*Forward-Looking Statements*," we discuss some of the risk factors that are relevant to our business and operating results.

Item 1B. Unresolved Staff Comments.

None

Item 1C. Cybersecurity.

Electro-Sensors recognizes the critical importance of cybersecurity in safeguarding sensitive information, protecting our stakeholders, and maintaining customer trust. Our approach to managing cybersecurity risks includes implementing and overseeing governance and policies, periodic risk assessment, an incident response plan, ongoing training and awareness programs, and a commitment to continuous improvement.

Electro-Sensors' information security is managed by our President and managers within the company. They are responsible for cybersecurity strategy, policy, standards, and processes. Our Board of Directors rely on management to bring significant matters impacting the Company to its attention, including with respect to material risks from cybersecurity threats.

A reputable firm for managed IT services supports Electro-Sensors through Managed IT Services. Services include managed device and network monitoring, patch management, security services including endpoint security and firewall management, secure email gateway and antispam, backup and recovery services, and 24/7 managed support. External network access and email are secured with Multi-Factor Authentication. All access control requests are documented and executed by trained, authorized personnel. Recovery data is kept offsite, and credentials are not kept within the client network. All security solutions managed by the managed service provider send critical alerts to an external ticketing system, and all critical alerts are responded to by trained personnel.

In the event of a cybersecurity incident, we have an incident response plan in place. This plan includes detection, response, and communication with stakeholders. Incident response is supported by appropriate third-party experts to address, assess, and respond to the event. The plan calls for mobilization of a response team including both internal and external resources as well as communication protocols so that event information is shared on a timely basis. We are committed to providing timely and accurate information to our stakeholders in the event of a breach.

As of the date of this report, we are not aware of any breach events or cybersecurity threats that could materially affect or are reasonably likely to materially affect the Company, including our business strategy, results of operations, or financial condition. However, any future potential risks from cybersecurity threats, including but not limited to exploitation of vulnerabilities, ransomware, denial of service, supply chain attacks, or other similar threats may materially affect us, including our execution of business strategy, reputation, results of operations and/or financial condition.

Item 2. Properties.

We own and occupy a 25,400 square foot facility at 6111 Blue Circle Drive, Minnetonka, Minnesota 55343-9108. All our operations are conducted within this facility. The facility is in excellent condition and we continue to maintain and update the facility as necessary. We believe the facility will be adequate for our needs in 2024.

Item 3. Legal Proceedings.

We are not the subject of any material legal proceedings as of the date of this filing and we are not aware of any material threatened litigation.

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.

Our common stock trades on the Nasdaq Capital Market of The Nasdaq Stock Market® under the symbol "ELSE."

Based on data provided by our transfer agent, as of February 29, 2024, we had 61 shareholders of record who held 838,094 shares of the Company's common stock. In addition, nominees held an additional 2,589,927 shares for approximately 1,130 shareholders holding shares in street name.

From time to time, we may be required to repurchase our common stock as a result of Employee Stock Ownership Plan ("ESOP") obligations described in Note 11 to our 2023 financial statements. We did not repurchase any common stock during the years ended December 31, 2023 and 2022.

The information required by Item 201(d) of SEC Regulation S-K is set forth in Item 12 of this Form 10-K.

Item 6. [Reserved].

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated due to various factors discussed under "Forward-Looking Statements" elsewhere in this Annual Report on Form 10-K.

RESULTS OF OPERATIONS

The following table contains selected financial information, for the years indicated, from our statements of comprehensive income expressed as a percentage of net sales.

	Years Ended December 31,	
	2023	2022
Net sales	100.0%	100.0%
Cost of goods sold	50.4	46.4
Gross profit	49.6	53.6
Operating expenses		
Selling and marketing	15.6	16.8
General and administrative	23.0	28.0
Research and development	11.4	9.3
Total operating expenses	50.0	54.1
Operating loss	(0.4)	(0.5)
Non-operating income		
Interest income	4.8	1.2
Total non-operating income, net	4.8	1.2
Income before income taxes	4.4	0.7
Income tax expense (benefit)	1.2	(0.3)
Net income	3.2%	1.0%

The following paragraphs discuss the Company's performance for years ended December 31, 2023 and 2022.

Comparison of 2023 vs 2022 (dollars in thousands)

Net Sales

Net sales for 2023 were $8,555, a decrease of $474, or 5.2%, from $9,029 in 2022. The decrease in sales was proportionally similar for both wired and HazardPRO wireless sensors and systems. International sales were steady as compared to 2022 at 10.3% of revenue.

Gross Profit

Gross profit for 2023 decreased $596, or 12.3%, to $4,245 from $4,841 in 2022. Gross margin in 2023 was 49.6% compared to 53.6% in 2022. The decrease in gross margin was primarily due to an increase in raw material and labor costs across all product lines, partially offset by price increases introduced in the second half of 2023.

Operating Expenses

Total operating expenses decreased $605, or 12.4%, to $4,273 in 2023 from $4,878 in 2022, and decreased as a percentage of net sales to 50.0% from 54.1%. The decrease in operating expense dollars was primarily due to decreases in legal and other professional fees incurred in 2022 associated with the announced merger with Mobile X Global, Inc. (Mobile X) that was terminated in January 2023 (as discussed in the following section "Non-GAAP Financial Measure") and to lower sales headcount.

- Selling and marketing expenses decreased $184, or 12.1%, to $1,332 in 2023 from $1,516 in 2022, and decreased as a percentage of net sales to 15.6% from 16.8%. The decrease was primarily due to lower sales headcount and variable compensation due to lower revenue.

- General and administrative expenses decreased $558, or 22.1%, to $1,968 in 2023 from $2,526 in 2022, and decreased as a percentage of net sales to 23.0% from 28.0%. The decrease was primarily due to legal and other professional fees incurred in 2022 related to the execution and subsequent termination of the merger agreement with Mobile X and related matters, partially offset by an increase in stock-based compensation expense related to stock option and restricted stock unit grants in the third quarter of 2023. Additional information related to the Mobile X merger is provided below in the Non-GAAP Financial Measure section and in Note 9 to the financial statements.

- Research and development expenses increased $137, or 16.4%, to $973 in 2023 compared to $836 in 2022, and increased as a percentage of net sales to 11.4% from 9.3%. The increase was primarily due to additional headcount and higher contract engineering costs related to product development and enhancements.

Operating Loss

Operating loss was $28 in 2023 compared to $37 in 2022, a decrease of $9, or 24.3%. The decrease was primarily the result of lower legal and other professional fees related to the Mobile X merger agreement and related matters, primarily offset by a decrease in net revenues and gross profit margin.

Non-Operating Income

Non-operating income increased $297 to $406 in 2023 from $109 in 2022, primarily as a result of an increase in interest income earned as a result of higher interest rates on Treasury Bills.

Equity securities are stated at fair value, and unrealized holding gains and losses are reported in our statements of comprehensive income in the non-operating income section. All other available-for-sale securities are stated at fair value, and unrealized holding gains and losses, net of the related deferred tax effect, are reported as a separate component of stockholders' equity.

Realized gains and losses, including losses from declines in value of specific securities determined by management to be other-than-temporary, are included in the statement of comprehensive income. Realized gains and losses are determined on the basis of the specific securities sold.

Income Taxes

Income tax expense was $103 in 2023 compared to an income tax benefit of $28 in 2022. The increase in the tax expense was due primarily to increased interest income in 2023 compared to 2022. We have provided detailed information about our income tax provision in Note 12 to the financial statements.

Net Income

We reported net income of $275 in 2023 compared to $100 in 2022, an increase of $175, or 175.0%. Basic and diluted earnings per share were $0.08 and $0.03 in 2023 and 2022, respectively.

Non-GAAP Financial Measure

In addition to financial results reported in accordance with accounting principles generally accepted in the United States of America (“GAAP”), the Company is providing a non-GAAP financial measure in this Form 10-K and an itemized reconciliation between Net Income and Adjusted Net Income, the non-GAAP financial measure.

The Company is using "Adjusted Net Income" as a non-GAAP financial measure to facilitate period-to-period comparisons and analysis of its operating performance and believes it is useful to investors as a supplement to GAAP measures in analyzing, trending and benchmarking the performance and value of the Company’s business. This measure is not intended to be a substitute for, or more meaningful than, Net Income prepared and reported in accordance with GAAP, but is provided as supplemental information. This measure may be different from Adjusted Net Income or similar financial measures used by other companies, even when similar terms are used to identify these measures.

As discussed below, to calculate Adjusted Net Income, the Company added back the expenses, less estimated taxes, related to the negotiation and execution of the proposed Mobile X merger transaction to Net Income for the years ended December 31, 2023 and 2022. The Company believes adding back these expenses more accurately portrays the underlying results and trends of the ongoing business.

These expenses continued, at a lower level, into 2023. On January 30, 2023, the Company and Mobile X jointly agreed to terminate the merger agreement. Although the expenses related to the Company-Mobile X Merger Agreement were incurred primarily in general and administrative expenses, the Company is not presenting any other non-GAAP information because it believes it has adequately described these expenses in the Management's Discussion and Analysis section of this Form 10-K and past filings with the Securities and Exchange Commission.

The Company incurred approximately $42 and $875 in legal and other professional fees for the years ended December 31, 2023 and 2022, respectively, related to the terminated Mobile X merger. The following table sets forth a reconciliation of Net Income, a GAAP financial measure, to Adjusted Net Income, a non-GAAP financial measure.

	Years Ended December 31	
	2023	2022
Net Income - GAAP	$ 275	$ 100
Plus merger related expenses	42	875
Less income taxes on merger expenses	(9)	(184)
Adjusted Net Income	$ 308	$ 791

OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any off-balance sheet transactions, arrangements or obligations that have, or are reasonably likely to have, a material effect on our financial condition, changes in the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $9,870 and $7,646 at December 31, 2023 and 2022, respectively. The increase was due to the fact that at December 31, 2023 we held more available funds in assets defined as cash and cash equivalents while at December 31, 2022, we held more available funds in assets defined as investments. Working capital was $12,449 at December 31, 2023 compared to $12,183 at December 31, 2022.

Cash generated from operating activities was $130 in 2023 compared to cash used in operating activities of $147 in 2022, an increase of $277. The increase was primarily due to higher net income primarily due to the decrease in legal and other professional fees related to the Mobile X merger agreement and related matters.

Cash generated from investing activities in 2023 was $2,100, compared to $964 in 2022. The increase in cash from investing activities was due to an increase in maturities of Treasury Bills as compared to the purchase price of Treasury Bills classified as investments. In addition, we purchased $70 and $65 of property, equipment, and intangibles in 2023 and 2022, respectively.

Cash used in financing activities during 2023 was $6 as compared to cash generated from financing activities of $116 during 2022. During 2022, three non-employee directors and one employee exercised a total of 32,500 stock options for a total exercise price of $122.

Subject to the following section, entitled "Supply Chain and Labor Dynamics," the Company believes its ongoing cash usage requirements will be primarily for capital expenditures, potential acquisitions, investments we believe present good opportunities for the Company and its shareholders, research and development, working capital, and growth initiatives. Management believes that cash on hand and any cash provided by operations will be sufficient to meet our cash requirements through at least the next 12 months.

Supply Chain and Labor Dynamics

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers relevant to the circumstances. Those decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which affect reported amounts and disclosures. Changes in economic conditions or other business circumstances may affect the outcomes of management’s estimates and assumptions.

Significant estimates, including the underlying assumptions, consist of the economic lives of long-lived assets, realizability of trade receivables, valuation of deferred tax assets/liabilities, inventory, investments, and stock compensation expense. It is at least reasonably possible that these estimates may change in the near term.

Economic lives of long-lived assets
We estimate the economic useful life of long-lived assets used in the business. Expected asset lives may be shortened or we may recognize an impairment based on a change in the expected life or use of the asset. If the expected life of an asset is shortened or an impairment recorded, it could result in an additional charge to depreciation expense. The economic useful life of assets may be greater than we originally estimated. If the actual useful life is greater than originally estimated, there would be no additional charge to depreciation expense.

Realizability of trade receivables
We estimate our allowance for credit losses based on the credit losses expected to arise over the life of our trade receivables. We are unable to predict which, if any, of our customers will be unable to pay their open invoices at a future date. If an account becomes uncollectible and we are required to write off the balance, we would write off the balance to the allowance for credit losses. Any change in our allowance for credit losses could cause a material increase or decrease in our general and administrative expenses.

Valuation of deferred tax assets/liabilities
We estimate our deferred tax assets and liabilities based on current tax laws and rates. The tax laws and rates could change in the future to either disallow the deductions or increase or decrease the tax rates. We recognize changes in deferred tax assets and liabilities in the period in which the tax law changes become effective. Any change in our deferred tax assets or liabilities could have a material negative or positive effect on our income tax expense.

Valuation of inventory
We purchase inventory based on estimated demand of products. It is possible that the inventory we have purchased will not be used in the products that our customers need or will not meet future technological requirements. If we are unable to use the inventory in our products and it does not meet future technological requirements, we would be required to remove the items from inventory and expense the amount in cost of goods sold.

Valuation of investments
Our investments in available-for-sale securities are valued at market prices in an open market. The prices are subject to the normal fluctuations that could be either negative or positive. Even though these equity securities were only valued at $56 at December 31, 2023, changes in the value of these equity securities could affect our profitability as the value fluctuates. For Treasury Bills with a maturity of more than 90 days from the date of purchase, we recognize interest, evenly, over the term of the Treasury Bill. We adjust the value of the Treasury Bill to fair value and unrealized holding gains or losses are reported in other comprehensive income (loss) on the balance sheet. Treasury Bills accounted for as cash equivalents are adjusted to fair value monthly and the change in the fair value is reported as interest income on the statement of comprehensive income.

Valuation of stock-based compensation expense
We estimate the expected life and forfeiture rates of stock options granted when calculating the value of options using the Black-Scholes-Merton model. The actual life and forfeiture rate could differ from what we estimated. Changes in the life or forfeiture rate of stock options could have a negative or positive impact on our stock-based compensation.

Additional information regarding our significant accounting policies is provided below in Part II, Item 8, *Financial Statements and Supplementary Data – Notes to Financial Statements, Note 1, Nature of Business and Significant Accounting Policies*.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Electro-Sensors, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Electro-Sensors, Inc. (the Company) as of December 31, 2023 and 2022 and the related statements of comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2023, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 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 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 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 our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

/s/ Boulay PLLP
We have served as the Company's auditor since 2006.

Minneapolis, Minnesota
March 15, 2024

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

	December 31 2023	December 31 2022
ASSETS		
Current assets		
Cash and cash equivalents	**$ 9,870**	$ 7,646
Treasury Bills	**0**	1,980
Equity securities	**56**	56
Trade receivables, less allowance for credit losses of $11	**1,283**	1,161
Inventories	**1,751**	1,745
Other current assets	**179**	214
Income tax receivable	**0**	11
Total current assets	**13,139**	12,813
Deferred income tax asset	**355**	256
Property and equipment, net	**951**	975
Total assets	**$ 14,445**	$ 14,044
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturity of financing lease	**$ 0**	$ 6
Accounts payable	**291**	274
Accrued expenses	**323**	350
Accrued income taxes	**76**	0
Total current liabilities	**690**	630
Commitments and contingencies		
Stockholders' equity		
Common stock par value $0.10 per share; authorized 10,000,000 shares; 3,428,021 shares issued and outstanding	**342**	342
Additional paid-in capital	**2,230**	2,163
Retained earnings	**11,183**	10,908
Accumulated other comprehensive income (unrealized income on available-for-sale securities, net of income tax)	**0**	1
Total stockholders' equity	**13,755**	13,414
Total liabilities and stockholders' equity	**$ 14,445**	$ 14,044

See Notes to Financial Statements

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

	Years Ended December 31, 2023	Years Ended December 31, 2022
Net sales	**$ 8,555**	$ 9,029
Cost of goods sold	**4,310**	4,188
Gross profit	**4,245**	4,841
Operating expenses		
Selling and marketing	**1,332**	1,516
General and administrative	**1,968**	2,526
Research and development	**973**	836
Total operating expenses	**4,273**	4,878
Operating loss	**(28)**	(37)
Non-operating income		
Interest expense	**(1)**	(1)
Interest income	**407**	110
Total non-operating income, net	**406**	109
Income before income taxes	**378**	72
Income tax expense (benefit)	**103**	(28)
Net income	**275**	100
Other comprehensive income (loss)		
Change in unrealized value of available-for-sale securities, net of income tax	**(1)**	1
Other comprehensive income (loss)	**(1)**	1
Net comprehensive income	**$ 274**	$ 101
Net income per share data		
Basic		
Net income per share	**$ 0.08**	$ 0.03
Weighted average shares	**3,428,021**	3,401,137
Diluted		
Net income per share	**$ 0.08**	$ 0.03
Weighted average shares	**3,428,021**	3,432,843

See Notes to Financial Statements

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

	Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2021	3,395,521	$ 339	$ 2,041	$ 10,808	$ 0	**$ 13,188**
Exercise of common stock options	32,500	3	119			**122**
Other comprehensive income					1	**1**
Stock-based compensation expense			3			**3**
Net income				100		**100**
Balance, December 31, 2022	3,428,021	342	2,163	10,908	1	**13,414**
Other comprehensive loss					(1)	**(1)**
Stock-based compensation expense			67			**67**
Net income				275		**275**
Balance, December 31, 2023	**3,428,021**	**$ 342**	**$ 2,230**	**$ 11,183**	**$ 0**	**$ 13,755**

See Notes to Financial Statements

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

	Years Ended December 31, 2023	2022
Cash flows from (used in) operating activities		
Net income	**$ 275**	$ 100
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Depreciation and amortization	**94**	145
Deferred income taxes	**(99)**	(48)
Stock-based compensation expense	**67**	3
Interest accrued on Treasury Bills	**(191)**	(8)
Change in:		
Trade receivables	**(122)**	(156)
Inventories	**(6)**	(82)
Other current assets	**35**	(26)
Accounts payable	**17**	(75)
Accrued expenses	**(27)**	8
Income taxes payable/receivable	**87**	(8)
Net cash from (used in) operating activities	**130**	(147)
Cash flows from investing activities		
Purchases of Treasury Bills	**(13,830)**	(6,971)
Proceeds from the maturity of Treasury Bills	**16,000**	8,000
Purchase of property and equipment	**(70)**	(65)
Net cash from investing activities	**2,100**	964
Cash flows from (used in) financing activities		
Payments on financing lease	**(6)**	(6)
Proceeds from the exercise of common stock options	**0**	122
Net cash from (used in) financing activities	**(6)**	116
Net increase in cash and cash equivalents	**2,224**	933
Cash and cash equivalents, beginning	**7,646**	6,713
Cash and cash equivalents, ending	**$ 9,870**	$ 7,646
Supplemental cash flow information		
Cash paid during the year for income taxes	**$ 115**	$ 28
Cash paid during the year for interest	**$ 1**	$ 1

See Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

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

In addition, we may periodically make strategic investments in other businesses and companies, including investments that we believe would facilitate the development of new relationships, or technology complementary to our existing products, or other investments that we believe present good opportunities for the Company and its shareholders. See Note 2 for additional information regarding the Company's investments. The Company's investments in securities are subject to normal market risks.

Significant accounting policies of the Company are summarized below:

Use of estimates

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

Cash and cash equivalents

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

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

Trade receivables and credit policies

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

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

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

The allowance is based on the credit losses expected to arise over the life of the receivable (contractual term). The Company considers historical loss rates and current economic conditions. Receivables are written off against the allowance for credit losses. The allowance for credit losses was $11 at December 31, 2023 and 2022.

As of December 31, 2023, the Company had no customers that exceeded 10% of the accounts receivable balance. As of December 31, 2022, there was one customer that accounted for approximately 12% of the accounts receivable balance.

Investments

Substantially all the Company's current investments consist of debt securities issued by the United States Government. The estimated fair value of non-publicly traded securities is based on financial and other factors. The Company owns equity securities in two non-publicly traded companies. The executive officer of the two companies is Chairman of the Board of Directors of Electro-Sensors, Inc.

Management determines the appropriate classification of securities at the date individual investments are acquired and evaluates the appropriateness of this classification at each balance sheet date.

Since the Company generally does not make investments in anticipation of short-term fluctuations in market price, the Company classifies its investments in Treasury Bills as available-for-sale. Treasury Bills with readily determinable values are stated at fair value, and unrealized holding gains and losses, net of the related deferred tax effect, are reported as a separate component of stockholders' equity and within accumulated other comprehensive gain. Equity securities with readily determinable values are stated at fair value. Unrealized gains and losses on equity securities are reported in the statement of comprehensive income in non-operating income.

Realized gains and losses on securities, including losses from declines in value of specific securities determined by management to be other-than-temporary, are included in the statement of comprehensive income in non-operating income. Realized gains and losses are determined on the basis of the specific securities sold. There were no other-than-temporary impairments recognized in the years ended December 31, 2023 and 2022.

Fair value measurements

The Company's policies incorporate the guidance for accounting for fair value measurements of financial assets and financial liabilities and for fair value measurements of non-financial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These policies also incorporate the guidance for fair value measurement related to non-financial items that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company currently has no non-financial or financial items that are measured on a nonrecurring basis.

The carrying value of cash equivalents, trade receivables, accounts payable, and other financial working capital items approximate fair value at December 31, 2023 and 2022 due to the short term maturity nature of these instruments.

Inventories

Inventories include material, labor and overhead and are valued at the lower of cost (first-in, first-out) or net realizable value.

Property and equipment

Property and equipment are stated at cost. Depreciation is provided over estimated useful lives by use of the straight-line method. Maintenance and repairs are expensed as incurred. Major improvements and betterments are capitalized.

Long-lived assets, such as property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require the Company to test a long-lived asset for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, the Company recognizes impairment to the extent that the carrying value of an asset exceeds its fair value. The Company determines fair value through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals.

Estimated useful lives are as follows:

	Years
Autos	3
Equipment	5 - 10
Furniture and Fixtures	3 - 7
Building	7 - 40

Intangible assets

The intangible asset was a communication technology acquired in October 2019. The Company amortized the cost of the intangible asset on a straight-line method over its estimated useful life, which was complete in 2022.

Revenue recognition

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

Advertising costs

The Company expenses advertising costs as incurred. Total advertising expense was $46 and $38 in 2023 and 2022, respectively.

Research and development

Expenditures for research and development are expensed as incurred. The Company incurred expenses of $973 and $836 in 2023 and 2022, respectively.

Income taxes

The Company presents deferred income taxes on an asset and liability approach to financial accounting and reporting for income taxes. The Company annually determines the difference between the financial reporting and tax bases of assets and liabilities. The Company computes deferred income tax assets and liabilities for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which these laws are expected to affect taxable income. Income tax expense is the current tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities, excluding the portion of the deferred asset or liability allocated to other comprehensive gain (loss). Deferred taxes are reduced by a valuation allowance to the extent that realization of the related deferred tax asset is not certain. We have a valuation allowance on our deferred tax asset of $279 and $252 at December 31, 2023 and 2022, respectively.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. The Company recognizes income tax positions at the largest amount that is more likely than not to be realized. The Company reflects changes in recognition or measurement in the period in which the Company's change in judgment occurs.

The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

(in thousands except share and per share amounts)

Net income per common share

Basic earnings per share (EPS) excludes dilution and is determined by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities such as options were exercised or converted into common stock. For the years ending December 31, 2023 and 2022, respectively, options to purchase 175,000 and 268,294 weighted average common shares have been excluded from the diluted weighted average shares because their effect would be anti-dilutive. In addition, for the year ended December 31, 2023, 105,000 restricted stock units have been excluded from the calculation because their effect would be anti-dilutive.

The following information presents the Company's computations of basic and diluted EPS for the periods presented in the statements of comprehensive income.

	Income	Shares	Per share amount
2023:			
Basic EPS	$ 275	3,428,021	$ 0.08
Effect of dilutive stock options		0	0.00
Diluted EPS	$ 275	3,428,021	$ 0.08
2022:			
Basic EPS	$ 100	3,401,137	$ 0.03
Effect of dilutive stock options		31,706	0.00
Diluted EPS	$ 100	3,432,843	$ 0.03

Stock-based compensation

The Company records compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton ("BSM") model. The Company uses historical data, among other factors, to estimate the expected price volatility, the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. At December 31, 2023, the Company had one stock-based compensation plan.

New Accounting Standard Adopted

Accounting Standard Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements* requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The adoption of ASU 2016-13 on January 1, 2023 had no significant impact on our financial statements.

(in thousands except share and per share amounts)

Note 2. Investments

The Company has investments in commercial paper, Treasury Bills, and common equity securities of two private U.S. companies. The commercial paper investment is in U.S. debt with ratings of F1+. The Treasury Bills have original maturities ranging from two months to three months. Treasury Bills with an original maturity date of three months or less are included within cash and cash equivalents on the balance sheet.

The Company classifies its investments in commercial paper and Treasury Bills as available-for-sale accounted for at fair value with unrealized gains and losses recognized in accumulated other comprehensive gain on the balance sheet.

Equity securities are measured at fair value and unrealized gains and losses are recognized in non-operating income.

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

	Cost	Gross unrealized gain	Gross unrealized loss	Fair value
December 31, 2023				
Money Market Savings	$ 1,902	$ 0	$ 0	$ 1,902
Treasury Bills	7,900	26	0	7,926
Equity Securities	54	2	0	56
	9,856	28	0	9,884
Less Cash Equivalents	9,802	26	0	9,828
Total Investments, December 31, 2023	$ 54	$ 2	$ 0	$ 56
December 31, 2022				
Commercial Paper	$ 1,377	$ 0	$ 0	$ 1,377
Treasury Bills	7,922	32	0	7,954
Equity Securities	54	2	0	56
	9,353	34	0	9,387
Less Cash Equivalents	7,319	32	0	7,351
Total Investments, December 31, 2022	$ 2,034	$ 2	$ 0	$ 2,036

ELECTRO-SENSORS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands except share and per share amounts)

Changes in Accumulated Other Comprehensive Income

Changes in Accumulated Other Comprehensive Income are as follows:

	Years Ended December 31, 2023	2022
Unrealized Gains		
Unrealized holding gains arising during the period	**$ 0**	$ 1
Less: Reclassification of gains included in net income	**(1)**	0
	(1)	1
Deferred Taxes on Unrealized Gains:		
Increase in deferred taxes on unrealized gains arising during the period	**0**	0
Less: Reclassification of taxes on gains included in net income	**0**	0
	0	0
Net Change in Accumulated Other Comprehensive Income (Loss)	**$ (1)**	$ 1

Note 3. Fair Value Measurements

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

December 31, 2023

	Carrying amount in balance sheet	Fair Value	Fair Value Measurement Using Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Money market savings	$ 1,902	$ 1,902	$ 1,902	$ 0	$ 0
Treasury Bills	7,926	7,926	7,926	0	0
Equity securities	56	56	0	0	56

December 31, 2022

	Carrying amount in balance sheet	Fair Value	Fair Value Measurement Using Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Commercial paper	$ 1,377	$ 1,377	$ 1,377	$ 0	$ 0
Treasury Bills	5,974	5,974	5,974	0	0
Treasury Bills - maturity date greater than three months	1,980	1,980	1,980	0	0
Equity securities	56	56	0	0	56

(in thousands except share and per share amounts

The fair value of the money market funds, commercial paper, and Treasury Bills is based on quoted market prices in an active market. Closing prices are readily available from active markets and are used as being representative of fair value. The Company classifies these securities as level 1.

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

The change in level 3 assets at fair value on a recurring basis is summarized as follows:

	Years Ended December 31,	
	2023	2022
Beginning Balance	**$ 56**	$ 56
Change in value	**0**	0
Ending Balance	**$ 56**	$ 56

Note 4. Inventories

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

	December 31,	
	2023	2022
Raw Materials	**$ 1,172**	$ 1,162
Work In Process	**301**	278
Finished Goods	**288**	315
Reserve for Obsolescence	**(10)**	(10)
Total Inventories	**$ 1,751**	$ 1,745

(in thousands except share and per share amounts)

Note 5. Property and Equipment, Net

The following is a summary of property and equipment:

	December 31, 2023	December 31, 2022
Autos	**$ 63**	$ 63
Equipment	**282**	282
Furniture and Fixtures	**463**	491
Right-of-Use Asset	**30**	30
Building	**1,373**	1,373
Land	**415**	415
	2,626	2,654
Less Accumulated Depreciation	**1,675**	1,679
Total Property and Equipment	**$ 951**	$ 975

Depreciation expense for the years ended December 31, 2023 and 2022 was $94 and $107, respectively.

Note 6. Net Intangible Assets

Intangible assets included the following:

	Average Useful Lives	December 31, 2022 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Communication Technology	3 Years	150	150	0
Net Intangible Assets		$ 150	$ 150	$ 0

Amortization expense for the year ended December 31, 2022 was $38.

Note 7. Accrued Expenses

Accrued expenses include the following:

	December 31, 2023	December 31, 2022
Wages and Commissions	**$ 255**	$ 328
Other	**68**	22
Total Accrued Expenses	**$ 323**	$ 350

(in thousands except share and per share amounts)

Note 8. Leases

The Company had a financing lease for office equipment which ended in December 2023. The lease has been extended as an operating lease on a month-to-month basis. Lease expense for the year ended December 31, 2023 was $1.

The components of lease expense were as follows:

	Years Ended December 31,	
	2023	**2022**
Finance lease cost:		
Amortization of right-of-use assets	$ **5**	$ 6
Interest on lease liabilities	**0**	1
Total finance lease cost	$ **5**	$ 7

Supplemental balance sheet information related to leases is as follows:

	December 31,	
	2023	**2022**
Finance leases		
Property and equipment, gross	$ **30**	$ 30
Accumulated amortization	**(30)**	(25)
Property and equipment, net	$ **0**	$ 5

Note 9. Merger Agreement with Mobile X Global, Inc.

On June 10, 2022, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Mobile X Newco, Inc., a Delaware corporation, a wholly owned subsidiary of the Company (the "Merger Sub"), and Mobile X Global, Inc., a Delaware corporation ("Mobile X").

On January 30, 2023, the Company and Mobile X terminated the Merger Agreement. A condition to the closing of the merger transaction was the consummation of an equity financing that the parties anticipated would be a PIPE investment (private investment in public entity). The financing necessary to consummate the merger was pursued but was not available due to difficult conditions in the financial markets, including the markets for PIPE investments.

(in thousands except share and per share amounts)

Note 10. Stock-Based Compensation

The 2013 Equity Incentive Plan (the “2013 Plan”) authorizes the issuance of nonqualified stock options and restricted stock units. Payment for the shares may be made in cash, shares of the Company’s common stock or a combination thereof. Under the terms of the 2013 Plan, incentive stock options and non-qualified stock options are granted at a minimum of 100% of fair market value on the date of grant and may be exercised at various times depending upon the terms of the option. All existing options expire 10 years from the date of grant or one year from the date of death. The grants require an acceleration of vesting upon a change of control in the Company.

Under the 2013 Plan, the Company is authorized to issue up to 600,000 shares through stock options and awards such as restricted stock or restricted stock units. As of December 31, 2023, under the 2013 Plan, 25,000 shares had been issued, options to purchase an aggregate of 175,000 shares were outstanding, of which options to purchase 95,000 shares were exercisable. During 2023, the Company also granted 105,000 restricted stock units. There are 295,000 additional shares available for issuance pursuant to awards that may be granted under the plan in the future.

Under the 1997 Plan, the Company was authorized to grant options to purchase up to 450,000 shares of its common stock. As of December 31, 2023, there were no options to purchase shares outstanding under the 1997 Plan. The board terminated the plan in 2014, but there were 7,500 outstanding options on that date that remained outstanding until they were exercised in 2022.

Stock Options

In 2023, the Company granted 25,000 non-qualified stock options each to its Chief Executive Officer and to three of its four non-employee board members. The options vest 20% on the grant date, with an additional 20% vesting annually thereafter. There were no options granted during the year ended December 31, 2022.

The assumptions made in estimating the fair value of the options on the grant date based upon the BSM option-pricing model for the year ended December 31, 2023 are as follows:

Dividend Yield	0.00%
Expected Volatility	25.56%
Risk Free Interest Rate	4.35%
Expected Life	6 Years

The Company calculates expected volatility for stock options and other awards using the Company's historical volatility as the Company believes the expected volatility will approximate historical volatility.

ELECTRO-SENSORS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands except share and per share amounts)

There were no options exercised during the year ended December 31, 2023. There were 32,500 options exercised during the year ended December 31, 2022. The Company had 225,000 options expire during the year ended December 31, 2023.

The following table summarizes the activity for outstanding incentive stock options under the 2013 Plan and 1997 Plan:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2021	332,500	$ 4.30	2.6	
Granted	0			
Exercised	(32,500)	3.76	3.4	
Expired	0			
Balance at December 31, 2022	300,000	4.35	1.4	
Granted	100,000	4.25	9.7	
Exercised	0			
Expired	(225,000)	4.57	0.0	
Balance at December 31, 2023	175,000	$ 4.06	6.8	$ 20
Vested and exercisable as of December 31, 2023	95,000	$ 3.84		$ 20

As of December 31, 2023, the unrecognized compensation expense related to outstanding stock options is $111, which the Company expects to recognize over a period of four years. To the extent the forfeiture rate is different than we have anticipated, stock-based compensation related to the awards will be different from our expectations. The Company recognized compensation expense in connection with the vesting of options of approximately $38 and $3 during the years ended December 31, 2023 and 2022, respectively.

(in thousands except share and per share amounts)

Restricted stock units

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

In 2023, the Company granted 35,000 restricted stock units to its Chief Executive Officer and 17,500 restricted stock units to each of its four non-employee board members. The restricted stock units vest 20% on the first anniversary of the grant and 20% annually thereafter.

The following table summarizes restricted stock unit activity for the year ended December 31, 2023:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2022	0	$ 0.00
Granted	105,000	4.11
Vested	0	0.00
Forfeited/canceled	0	0.00
Unvested as of December 31, 2023	105,000	$ 4.11

As of December 31, 2023, the unrecognized compensation expense related to outstanding restricted stock units is $403, which the Company expects to recognize over a period of five years. The Company recognized compensation expense in connection with the vesting of restricted stock units of approximately $29 for year ended December 31, 2023.

Note 11. Benefit Plans

Employee stock ownership plan

The Company sponsors an employee stock ownership plan ("ESOP") that covers substantially all employees who work 1,000 or more hours during the year. The ESOP has, at various times, secured financing from the Company to purchase the Company's shares on the open market. When the ESOP purchases shares with the proceeds of the Company loans, the shares are pledged as collateral for these loans. The shares are maintained in a suspense account until released and allocated to participant accounts. The ESOP owns 94,434 shares of the Company's stock at December 31, 2023. All shares held by the ESOP have been released and allocated to participants' accounts. No dividends were paid during the years ended December 31, 2023 and 2022. The ESOP had no debt to the Company at December 31, 2023 or 2022.

The Company recognized compensation expense for contributions of $20 and $30 to the ESOP plan for the years ended December 31, 2023 and 2022, respectively.

In the event a terminated ESOP participant desires to sell his or her shares of the Company's stock and the shares are not readily tradable, the Company may be required to purchase the shares from the participant at fair market value. In addition, at its election, the Company may distribute the ESOP's shares to the terminated participant. At December 31, 2023, 94,434 shares of the Company's stock, with an aggregate fair market value of approximately $359, are held by ESOP participants who, if terminated, would have rights under the repurchase provisions if the Company's stock were not readily traded. The Company believes because its stock is listed on the Nasdaq Capital Market it meets the ESOP requirements and that there would not be a current obligation for it to repurchase any distributed ESOP shares.

Profit sharing plan and savings plan

The Company has a salary reduction and profit sharing plan that conforms to IRS provisions for 401(k) plans. The Company may make profit-sharing contributions with the approval of the Board of Directors. There were no profit-sharing contributions by the Company in 2023 or 2022.

(in thousands except share and per share amounts)

Note 12. Income Taxes

The components of the income tax provision are as follows:

	Years Ended December 31	
	2023	2022
Current:		
Federal	$ **201**	$ 19
State	**1**	1
Deferred:		
Federal	**(99)**	(48)
State	**0**	0
Total Federal and State Income Taxes	$ **103**	$ (28)

The provision for income taxes differs from the amount obtained by applying the U.S. federal income tax rate to pretax income due to the following:

	Years Ended December 31	
	2023	2022
Computed "Expected" Federal Tax Expense	**$ 79**	$ 15
Increase (Decrease) in Taxes Resulting From:		
State Income Taxes, net of Federal Benefit	**1**	1
R&D Credits	**(63)**	0
Permanent Differences	**4**	2
Other	**82**	(46)
Total Federal and State Income Taxes	**$ 103**	$ (28)

(in thousands except share and per share amounts)

The components of the net deferred tax asset consist of:

	December 31	
	2023	**2022**
Deferred Tax Assets:		
Vacation accrual	**$ 26**	$ 25
Allowance for credit losses	**2**	2
Stock compensation	**6**	91
Bonus	**2**	11
Depreciation and amortization	**71**	94
Inventory obsolescence	**2**	2
R&D expenses	**273**	0
R&D credit carryforward	**279**	313
Valuation allowance	**(279)**	(252)
Total Deferred Tax Assets	**382**	286
Deferred Tax Liabilities:		
Prepaid expenses	**27**	30
Total Deferred Tax Liabilities	**27**	30
Net Deferred Tax Asset	**$ 355**	$ 256

R&D credits can be carried forward for twenty years for federal purposes and fifteen years in Minnesota.

The Company is materially subject to the following taxing jurisdictions: U.S. and Minnesota. The tax years 2020 through 2022 remain open to examination by the Internal Revenue Service and state jurisdictions. We have no accrued interest or penalties related to uncertain tax positions as of January 1, 2023 or December 31, 2023 and uncertain tax positions are not significant.

Note 13. Contingencies

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

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The person serving as our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on this evaluation, the person serving as the Company's principal executive officer and principal financial officer has concluded that the Company's disclosure controls and procedures were effective as of December 31, 2023 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Under Section 404 of the Sarbanes-Oxley Act of 2002, our management is required to assess the effectiveness of the Company's internal control over financial reporting as of the end of each fiscal year and report, based on that assessment, whether the Company's internal control over financial reporting is effective.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "*Internal Control-Integrated Framework (2013)*." These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company's assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal control over financial reporting. Based on this evaluation, the person serving as the Company's principal executive officer and principal financial officer has concluded that the Company's internal controls were effective as of December 31, 2023.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of fiscal year 2023 that were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

None

PART III

Certain information required by Part III is incorporated by reference to the Company's Definitive Proxy Statement pursuant to Regulation 14A (the "2024 Proxy Statement") for its Annual Meeting of Shareholders to be held April 24, 2024 ("Annual Meeting").

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 401 under Regulation S-K, to the extent applicable to the Company's directors, will be set forth under the caption "Election of Directors" in the 2024 Proxy Statement and is incorporated herein by reference. The information required with respect to the Company sole executive officer, who is also a director, will be set forth under the caption "Election of Directors."

The information required by Item 405 regarding compliance with Section 16(a), if any, will be set forth under the caption "Delinquent Section 16(a) Reports" in the 2024 Proxy Statement and is incorporated herein by reference. If there are no Delinquent Section 16(a) Reports required, this section will be omitted from the 2024 Proxy Statement.

Code of Ethics and Business Conduct

The Company has adopted the Electro-Sensors Code of Ethics and Business Conduct (the "Code of Conduct") applicable to all officers and employees of the Company. A copy of the Code of Conduct can be obtained free of charge upon written request directed to the Company's Chief Executive Officer at the Company's executive offices. Any amendment to, or waiver from, a provision of our Code of Conduct will be posted to our website.

The information required by Item 407 regarding corporate governance will be set forth under the caption "Corporate Governance" in the 2024 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

The information called for by Item 402 under Regulation S-K, will be set forth under the caption "Executive Compensation" in the Company's 2024 Proxy Statement and is incorporated herein by reference.

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

The information called for by Item 403 under Regulation S-K will be set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's 2024 Proxy Statement and is incorporated herein by reference.

The following table provides information as of December 31, 2023 about the Company's equity compensation plans.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	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 column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	280,000	$4.06	295,000[1]
Equity compensation plans not approved by security holders	—	—	—
Total	280,000	$4.06	295,000[1]

[1] Shares issuable pursuant to the 2013 Equity Incentive Plan.

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

The information required by Item 404 under Regulation S-K will be set forth under the caption "Transactions with Related Persons, Promoters and Certain Control Persons" in the 2024 Proxy Statement and is incorporated herein by reference.

The information required by Item 407(a) will be set forth in the 2024 Proxy Statement under the caption "Corporate Governance" and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 of Form 10-K and 9(e) of Schedule 14A will be set forth under the caption "Ratification of Independent Registered Public Accounting Firm" in the Company's 2024 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

Financial Statements.

Reference is made to the Index to Financial Statements appearing on Page 19 hereof.

Financial Statement Schedules.

The Financial Statement Schedules have been omitted either because they are not required or because the information has been included in the financial statements or the notes thereto included in this Annual Report.

Exhibits.

Exhibit Number	Exhibit Description
3.1	Electro-Sensors, Inc Restated Articles of Incorporation, as amended—incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended June 30, 2022
3.2	Electro-Sensors, Inc. Bylaws, as amended June 10, 2022, incorporated by reference to Exhibit 3.2 to the Form 10-Q for the quarter ended June 30, 2022
4.1	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
*10.1	Electro-Sensors, Inc. 2013 Equity Incentive Plan incorporated by reference to Appendix A of the Company's Proxy Statement for the Company's 2016 Annual Meeting of Shareholders
*10.2	Form of Incentive Stock Option Agreement under the 2013 Equity Incentive Plan – incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 29, 2013
*10.3	Form of Non-qualified Stock Option Agreement under the 2013 Equity Incentive Plan, as updated August 2023 – incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed on November 14, 2023
*10.4	Form of Restricted Stock Unit Agreement under the 2013 Equity Incentive Plan - incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q filed on November 14, 2023
10.5	Mutual Termination Agreement, dated January 30, 2023 between Electro-Sensors, Inc. and Mobile X Global, Inc. - incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed January 31, 2023
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (see Signature page)
31.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97.1	Compensation Recoupment Policy as adopted on October 18, 2023
99.1	Letter to Shareholders dated March 15, 2024
99.2	Investor Information
101	The following financial information from Electro-Sensors, Inc.'s Annual Report on Form 10-K for the annual period ended December 31, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets as of December 31, 2023 and 2022, (ii) Statements of Comprehensive Income for the years ended December 31, 2023 and 2022, (iii) Statements of Cash Flows for years ended December 31, 2023 and 2022, (iv) Statement of Changes in Stockholders' Equity, and (v) Notes to Financial Statements.

* Management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary

None

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.

ELECTRO-SENSORS, INC.
("Registrant")
By: /s/ DAVID L. KLENK
David L. Klenk
President, Chief Executive Officer, and Chief Financial Officer
Date: March 15, 2024

By: /s/ GLORIA M. GRUNDHOEFER
Gloria M. Grundhoefer
Controller
Date: March 15, 2024

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.

(Power of Attorney)

Each person whose signature appears below constitutes and appoints DAVID L. KLENK as his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorney-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signature	Title	Date
/s/David L. Klenk	President and Director (CEO and CFO)	March 15, 2024
/s/ Joseph A. Marino	Chairman and Director	March 15, 2024
/s/ Scott A. Gabbard	Director	March 15, 2024
/s/ Michael C. Zipoy	Director	March 15, 2024
/s/ Jeffrey D. Peterson	Director	March 15, 2024

EXHIBIT 23.1

BOULAY

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (333-48995 and 333-210944) of Electro-Sensors, Inc. of our report dated March 15, 2024 relating to the financial statements that appear in this Annual Report on Form 10-K for the year ended December 31, 2023.

/s/ Boulay PLLP
Minneapolis, MN
March 15, 2024

EXHIBIT 31.1

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

I, David L. Klenk, certify that:

1. I have reviewed this report on Form 10-K of Electro-Sensors Inc.;

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

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

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

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

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

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

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

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

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

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

March 15, 2024

/s/ David L. Klenk

David L. Klenk
Chief Executive Officer and Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Annual Report of Electro-Sensors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission (the "Report"), I, David L. Klenk, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2024

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

EXHIBIT 97.1

ELECTRO-SENSORS, INC.
COMPENSATION RECOUPMENT POLICY
ADOPTED AS OF OCTOBER 18, 2023

1. Restatement. In the event of any required accounting restatement of the financial statements of Electro-Sensors, Inc. (the “Company”) due to the material noncompliance of the Company with any financial reporting requirement under the applicable U.S. federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a “Restatement”), the Company will recover reasonably promptly from any person who is or was an “Executive Officer,” as such term is defined in Rule 10D-1 adopted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 5608 of the Nasdaq listing rules, of the Company (each, a “Covered Person”) the amount of any “Erroneously Awarded Incentive-Based Compensation” (as defined below). This Policy is effective as of October 2, 2023, the effective date of Rule 5608 of the Nasdaq listing rules (the “Effective Date”)

2. Amount. The amount of Incentive-Based Compensation (as defined below) that must be recovered from a Covered Person pursuant to the immediately preceding paragraph is the amount of “Recoverable Incentive-Based Compensation” (as defined below) received by a Covered Person that exceeds the amount of Recoverable Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated amounts, computed without regard to any taxes paid (referred to as the “Erroneously Awarded Incentive-Based Compensation”). For Recoverable Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Incentive-Based Compensation is not subject to mathematical recalculation directly from the information in a Restatement, the amount must be based on a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return, as applicable, upon which the Recoverable Incentive-Based Compensation was received, and the Company must maintain documentation of that reasonable estimate and provide such documentation to the Nasdaq Stock Market LLC (“Nasdaq”). For the purposes of this Policy, Recoverable Incentive-Based Compensation will be deemed to be received in the fiscal period during which the financial reporting measure specified in the applicable Incentive-Based Compensation award is attained, even if the payment or grant occurs after the end of that period.

3. Definitions:

(a) “Incentive-Based Compensation” means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a “financial reporting measure,” which means a measure that is determined and presented in accordance with Generally Accepted Accounting Principles which are used in preparing the Company’s financial statements, and any measure that is derived wholly or in part from such measures. Stock price and total shareholder return are also financial reporting measures for this purpose. For avoidance of doubt, a financial reporting measure need not be presented within the Company’s financial statements or included in a filing with the Securities and Exchange Commission.

(b) “Recoverable Incentive-Based Compensation” means all Incentive-Based Compensation received on or after the Effective Date of this Policy set forth above by a Covered Person: (i) after beginning service as an executive officer; (ii) who served as an Executive Officer at any time during the performance period for the Incentive-Based Compensation; (iii) while the Company has a class of securities listed on a national securities exchange or a national securities association; and (iv) during the three completed fiscal years immediately preceding the date that the Company is required to prepare a Restatement, including any applicable transition period that results from a change in the Company’s fiscal year within or immediately following those three completed fiscal years. For this purpose, the Company is deemed to be required to prepare a Restatement on the earlier of: (i) the date the Board of Directors of the Company (the “Board”), or the Company’s officers authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare a Restatement; and (ii) the date a court, regulator or other legally authorized body directs the Company to prepare a Restatement. The Company’s obligation to recover Erroneously Awarded Incentive-Based Compensation is not dependent on if or when the restated financial statements are filed with the Securities and Exchange Commission.

4. Recovery. The Company must recover the Erroneously Awarded Incentive-Based Compensation from Covered Persons unless the Board determines that recovery is impracticable because: (i) the direct expense to a third party to assist in enforcing this Policy would exceed the amount of Erroneously Awarded Incentive-Based Compensation; provided that, the Company must make a reasonable attempt to recover the Erroneously Awarded Incentive-Based Compensation before concluding that recovery is impracticable, document such reasonable attempt to recover the Erroneously Awarded Incentive-Based Compensation and provide such documentation to Nasdaq; or (ii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the applicable requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

5. No Indemnification. In no event will the Company indemnify any Covered Person for any amounts that are recovered under this Policy. This Policy is in addition to (and not in lieu of) any right of repayment, forfeiture or right of offset against any employees that is required pursuant to any statutory repayment requirement (regardless of whether implemented at any time prior to or following the adoption or amendment of this Policy), including Section 304 of the Sarbanes-Oxley Act of 2002. Any amounts paid to the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 will be considered in determining any amounts recovered under this Policy.

6. Other Company Rights. The application and enforcement of this Policy does not preclude the Company from taking any other action to enforce a Covered Person’s obligations to the Company, including termination of employment or institution of legal proceedings. Nothing in this Policy restricts the Company from seeking recoupment under any other compensation recoupment Policy or any applicable provisions in plans, agreements, awards or other arrangements that contemplate the recoupment of compensation from a Covered Person. If a Covered Person fails to repay Erroneously Awarded Incentive-Based Compensation that is owed to the Company under this Policy, the Company must take all appropriate action to recover any Erroneously Awarded Incentive-Based Compensation from the Covered Person, and the Covered Person will be required to reimburse the Company for all expenses (including legal expenses) incurred by the Company in recovering the Erroneously Awarded Incentive-Based Compensation.

7. Binding Effect. The terms of this Policy will be binding and enforceable against all Covered Persons subject to this Policy and their beneficiaries, heirs, executors, administrators or other legal representatives. If any provision of this Policy or the application of such provision to any Covered Person is adjudicated to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Policy, and the invalid, illegal or unenforceable provisions will be deemed amended to the minimum extent necessary to render any such provision (or the application of such provision) valid, legal or enforceable.

8. Acknowledgement by Employee. Each Covered Person must sign and return to the Company, within 30 calendar days following the later of (i) the Effective Date of this Policy first set forth above or (ii) the date the individual becomes a Covered Person, the Acknowledgement Form attached hereto as Exhibit A, pursuant to which the Covered Person agrees to be bound by, and to comply with, the terms and conditions of this Policy.

9. Interpretation. This Policy will be interpreted in a manner that is consistent with Rule 10D-1 under the Exchange Act, Rule 5608 of the Nasdaq listing rules and any related rules or regulations adopted by the Securities and Exchange Commission or Nasdaq (the “Applicable Rules”) as well as any other applicable law. To the extent the Applicable Rules require recovery of incentive-based compensation in additional circumstances beyond those specified above, nothing in this Policy will be deemed to limit or restrict the right or obligation of the Company to recover incentive-based compensation to the fullest extent required by the Applicable Rules.

EXHIBIT A
ELECTRO-SENSORS, INC.
COMPENSATION RECOUPMENT POLICY
ACKNOWLEDGEMENT FORM

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Electro-Sensors, Inc. (the "Company") Compensation Recoupment Policy (the "Policy").

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned's employment with the Company. Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by returning any Erroneously Awarded Incentive-Based Compensation (as defined in the Policy) to the Company to the extent required by, and in a manner consistent with, the Policy.

The undersigned expressly agrees that the Company may deduct from the undersigned's paycheck or other compensation otherwise to the undersigned any Erroneously Awarded Incentive-Based Compensation.

COVERED PERSON

____

Signature

____

Print Name

____

Date

Exhibit 99.1

March 15, 2024

Dear Shareholders:

Welcome to the Electro-Sensors 2023 Annual Report. Thanks for your interest in the company and your continued support as we provide the industry's most reliable and cost-effective machine monitoring sensors and hazard monitoring systems. For over 50 years, agricultural and industrial customers around the world have relied on Electro-Sensors' products to keep their production processes running smoothly, efficiently, and safely.

In 2023, we achieved annual revenue of $8.6 million, down 5.2% from the prior year. Early in the year we experienced customers delaying certain facility upgrades and capital expenditure projects. However, as the year progressed, activity increased as projects once again moved forward, leading to stronger revenue in the fourth quarter. During the year we were encouraged by several repeat HazardPRO™ orders from existing customers eager to upgrade their facilities with our advanced wireless hazard monitoring systems. The powerful capabilities of the HazardPRO technology, combined with simple and cost-effective installation, continues to drive sales of these systems. Furthermore, international sales continued to be an important part of our business with just over 10% of revenue coming from outside the United States.

While several sectors of our supply chain began to stabilize during the year, our business was still negatively impacted by challenges in both availability and pricing of components used in the production of our products. Additionally, the labor market for new employees remained very tight, leading to difficulty finding new employees and rising employee costs. These increased costs were reflected in a 49.6% gross margin for the year, four percentage points lower than the prior year. While we expect many of these supply chain and labor issues to continue throughout 2024, our team continues to diligently look for ways to improve efficiencies and adjust pricing as necessary to steadily improve our gross margin.

On the corporate development front, we continue to look for ways to grow our business and provide value to our shareholders. In early 2023, we terminated our proposed merger with Mobile X Global, Inc. due to unfavorable conditions in the financial markets. We subsequently announced the formation of a special committee of the board of directors to continue the process of identifying and assessing opportunities that may lead to value creation for the Company. Our special committee continues to be very active in these pursuits and will communicate with you as appropriate when we reach a point where disclosure is prudent.

Thanks again for your support of Electro-Sensors. We have an amazing legacy of providing world-leading products and services through an amazing team of dedicated employees, and we look forward to building on this legacy into an exciting future.

We invite you to join our virtual annual shareholder meeting on April 24, 2024. Please see your proxy statement or visit our website (www.electro-sensors.com) for details on how to access and participate in the virtual meeting.

David Klenk

Exhibit 99.2

INVESTOR INFORMATION

Annual Meeting

The Annual Meeting of Shareholders will be held at www.virtualshareholdermeeting.com/ELSE2024 on April 24, 2024 at 2:00 p.m. Central time. All shareholders are welcome to attend and take part in the discussion of Company affairs.

Board of Directors
David L. Klenk
President, Electro-Sensors, Inc.

Joseph A. Marino
Chairman of the Board
President, Cardia, Inc.

Scott A. Gabbard
Retired Finance Executive, Magenic Technologies, Inc.

Michael C. Zipoy
Retired Investment Executive, Feltl and Company

Jeffrey D. Peterson
Private Investor

Officers
David L. Klenk
President, Chief Executive Officer and Chief Financial Officer

Transfer Agent & Registrar
Equiniti Trust Company, LLC
48 Wall Street, Floor 23
New York, NY 10005

Auditors
Boulay PLLP
7500 Flying Cloud Drive, Ste. 800
Minneapolis, MN 55344

Counsel
Holland Hart LLP
555 17th Street Suite 3200
Denver, CO 80202

Exchange Listing
The Nasdaq Stock Market (Capital Market)
Common Stock
Stock Trading Symbol: **ELSE**