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ANNUAL
REPORT

DEAR SHAREHOLDERS

Fiscal 2023 was a record-breaking year for Keytronic, with annual revenue of \$588 million, driven by our successful ramp of new programs. Revenue grew 11% and earnings grew 53% from the prior year – despite facing many ongoing challenges with supply chains and labor markets, and despite higher interest expense and foreign currency pressures.

During the year, we continued to see the favorable trend of contract manufacturing returning to North America. As a result, we continued to expand our customer base and won new programs involving a wide range of industries: outdoor power equipment, battery management, automated sprinklers, biometric sensors, audio technology, automation, electric vehicles, power distribution, security devices, video and pinball machines, mining safety and productivity, telecommunications, inventory control, clean energy and distribution monitoring equipment.

Global logistics problems, the war in Europe, and China-US geopolitical tensions continue to drive OEMs to examine their traditional outsourcing strategies. We believe these customers increasingly realize that being overly dependent on their China-based contract manufacturers is risky and the decision to on-shore or near shore production continues to become more widely accepted as a smart long-term strategy.

We continue to see that Keytronic offers the ideal solution for customers as they move to respond to geopolitical pressures. Our facilities in Mexico represent a campus of 1.1 million square feet in Juarez, most of which is contiguously located in nine facilities acquired over time. Our three US-based manufacturing sites have also benefited greatly from the macro-forces driving business back to North America.

At the same time, our Shanghai plant has added capabilities in management, staff and systems that allow it to efficiently serve Chinese customers directly and our procurement group in Shanghai serves our entire corporation with critical components made in China. Moreover, a growing number of potential customers are actively evaluating a migration of their China-based manufacturing to our facility in Vietnam, which we expect to play a major role in our future growth.

The combination of our global footprint and our expansive design capabilities is proving to be extremely effective in capturing new business. Many of our large and medium-sized manufacturing program wins are predicated on Keytronic's deep and broad design services. We also invested in vertical integration and manufacturing process knowledge, including a wide range of plastic molding, PCB assembly, metal forming, painting and coating, complex high volume automated assembly and the design construction and operation of complicated test equipment. This deep and broad expertise sets us apart from our competitors of a similar size.

We believe global logistics problems and heightened concerns about supply chains will continue to drive the favorable trend of contract manufacturing returning to North America, as well as to our expanding Vietnam facilities. Along with our record revenue in fiscal 2023, we continued to see improvement across the metrics associated with business development, including the significant increase in the number of active quotes with prospective customers.

We move into fiscal 2024 with a strong pipeline of potential new business, and we're seeing improvement in the global supply issues and lower labor turnover, which severely limited our production in prior periods. While we can expect higher interest rates and a strong Peso to dampen our profitability in the near term, we're very encouraged by our progress and potential for growth in fiscal 2024 and beyond.

Finally, I want to thank our exceptional employees for their dedication and hard work during this challenging time, and our shareholders for their continued support.

Sincerely,



Craig D. Gates
President and Chief Executive Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 JULY 1, 2023

OR

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

FOR THE PERIOD FROM TO

Commission File Number 0-11559

KEY TRONIC CORPORATION

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of
Incorporation or organization)

91-0849125

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

4424 North Sullivan Road Spokane Valley, Washington

(Address of principal executive offices)

99216

(Zip Code)

(509) 928-8000

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 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 Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

(Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

As of December 31, 2022, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$44.1 million based on the closing price as reported on the NASDAQ.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,761,871 shares of common stock were outstanding as of September 14, 2023.

Documents Incorporated by Reference:

Certain information is incorporated into Part III of this report by reference to the Proxy Statement for the registrant's 2023 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

KEY TRONIC CORPORATION
2023 FORM 10-K

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FORWARD-LOOKING STATEMENTS

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

This Annual Report on Form 10-K contains forward-looking statements in addition to historical information. Forward-looking statements include, but are not limited to those including such words as aims, anticipates, believes, continues, could, estimates, expects, hopes, intends, plans, predicts, projects, targets, or will, similar verbs, or nouns corresponding to such verbs, which may be forward looking. Forward-looking statements also include other passages that are relevant to expected future events, performances, and actions or that can only be fully evaluated by events that will occur in the future. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Risks and uncertainties that might cause such differences include, but are not limited to those outlined in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risks and Uncertainties that May Affect Future Results” and in “Risk Factors.” Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management’s opinions only as of the date hereof. The Company undertakes no obligation to update forward-looking statements to reflect developments or information obtained after the date hereof and disclaims any obligation to do so. Readers should carefully review the risk factors described in periodic reports the Company files from time to time with the Securities and Exchange Commission, including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

PART I

Item 1. BUSINESS

Background

Key Tronic Corporation was organized in 1969, as a Washington corporation that locally manufactured computer keyboards. The ability to design, build and deliver a quality product led us to become a leading independent manufacturer of keyboards for computers in the United States. Our fully integrated design, tooling, and automated manufacturing capabilities enabled us to rapidly respond to customers’ needs for keyboards in production quantities worldwide. We supported our sales growth through the development and purchase of international manufacturing facilities. As the computer keyboard market matured with increasing competition from other international providers, we determined that our business could no longer solely rely on keyboard sales.

After assessing market conditions and our strengths and capabilities, we shifted our focus from keyboard manufacturing to contract manufacturing for a wide range of products. Our unique strategic attributes are based on our core strengths of innovative design and engineering expertise in electronics, mechanical engineering, sheet metal fabrication and stamping, and precision plastics combined with high-quality, low cost production, and assembly on an international basis while providing exceptional customer service. These strengths have made our company a strong competitor in the contract manufacturing market.

Our Industry and Strategy

The expansion of the contract manufacturing industry and our acquisitions have allowed us to continue to expand our customer base and the industries that we serve. The increase in new programs represents a growing portion of our revenue and a promising foundation for our future. In keeping with our long-term strategic objectives, we have been successfully building a more diversified customer portfolio, spanning a wider range of industries. We currently offer our customers the following services: integrated electronic and mechanical engineering, precision plastic molding, sheet metal fabrication, printed circuit board (PCB) and complete product assembly, component selection, sourcing and procurement, worldwide logistics, and new product testing and production all at competitive pricing due to our global footprint. We differentiate ourselves from others our size and larger in the contract manufacturing industry by providing vertical integration, a flexible and responsive approach to our customer’s changing supply demand, and complete design engineering support.

We believe that we are well positioned in the contract manufacturing industry to continue the expansion of our customer base and achieve long-term growth. Our unique blend of multinational facilities, vertical integration, centralized management, and core strengths continue to support our growth and our customers’ needs. We continue to focus on controlling operating expenses and leveraging the synergistic capabilities of our world-class facilities in the United States, Mexico, China and Vietnam. This international production capability provides our customers with the benefits of improved supply-chain management, reduced inventory, lower labor costs, lower transportation costs, and reduced product fulfillment time. Given our competitive advantages and the growing pressure for new potential customers to move forward with their outsourcing strategies, we feel that we are strongly positioned to win new business in coming periods and grow our revenue and profits.

The contract manufacturing industry is intensely competitive. Although our customer base is growing, we still have less than 1% of the potential global market and our revenue can fluctuate significantly due to reliance on a concentrated base of customers. We are planning for new customer growth in the coming quarters by seeking to secure new programs with new and existing customers, increase our worldwide manufacturing capacity, leverage further our design engineering capabilities and continue to improve our manufacturing and procurement processes and capabilities. Ongoing challenges that we face include but are not limited to the following: continuing to win programs from new and existing customers, balancing capital employed, production capacity and key personnel in support of new customer programs, improving operating efficiencies, controlling costs while developing competitive pricing strategies, and successfully transitioning new program wins to full production.

Customers and Marketing

We provide a mix of manufacturing services for outsourced Original Equipment Manufacturing (OEM) products. We provide the following services: product design, surface mount technologies (SMT) and pin through hole capability for printed circuit board assembly, tool making, precision plastic molding, sheet metal fabrication and painting, liquid injection molding, complex assembly, prototype design and full product assembly.

Sales of the majority of our products have not historically been seasonal in nature, but may be seasonal in the future if there are changes in the types of products manufactured. Sales can, however, fluctuate significantly between quarters from changes in customers and customer demand due to the concentration of sales generated by our largest customers.

For the fiscal years 2023 and 2022, the five largest customers in each year accounted for 36% and 40% of combined total net sales, respectively. We continue to diversify our customer base by adding additional programs and customers. We expect net sales to our five largest customers as a percentage of total net sales to approximate current levels going forward.

The following table summarizes the customers that represented 10% or more of total net sales during the last two fiscal years:

	Percentage of Net Sales by Fiscal Year	
	2023	2022
Customer A	12%	12%

There can be no assurance that the Company's principal customers will continue to purchase products from the Company at current levels. Moreover, the Company typically does not enter into long-term volume purchase contracts with its customers, and the Company's customers have certain rights to extend or delay the shipment of their orders. The loss of one or more of the Company's major customers, or the reduction, delay or cancellation of orders from such customers, could materially and adversely affect the Company's business, operating results and financial condition.

We market our products and services primarily through our direct sales department which is comprised of strategically located field sales people and distributors. We also maintain relationships with several independent sales organizations to assist in marketing our product lines.

Manufacturing

We have continually made investments in developing and expanding a capital equipment base to achieve vertical integration and efficiencies in our manufacturing processes. We have invested significant capital into SMT for volume manufacturing of complex printed circuit board assemblies and in our metal shop providing precision metal stamping, fabricating, and finishing. We also design and develop tooling for injection molding and sheet metal fabrication and manufacture the majority of plastic and sheet metal parts used in the products we manufacture. Additionally, we have equipment to maintain a controlled clean environment for manufacturing processes that require a high level of precise control.

We use a variety of manual and automated assembly processes in our facilities, depending upon product complexity and degree of customization. Some examples of automated processes include component insertion, SMT, selective soldering, flexible robotic assembly, computerized vision system quality inspection, laser turrets, automated switch and key top installation, robotic welding, automated powder coat application, and automated functional testing.

Our engineering expertise and automated manufacturing processes enable us to work closely with our customers during the design and prototype stages of production and to jointly increase productivity and reduce response time to the marketplace. We use computer-aided design techniques and software to assist in preparation of the tool design layout and component placement, to reduce tooling and production costs, improve component and product quality, and enhance turnaround time during product development.

We purchase materials and components for our products from many different suppliers, including both domestic and international sources. We develop close working relationships with our suppliers, many of whom have been supplying products to us for several years.

Research, Development, and Engineering

As part of our long-term strategy, we are committed to supporting our customers by providing research, development, and engineering services. We have seen an increase in the success of providing design support on existing and potential customers in differentiating ourselves. We believe these services allow us to facilitate in optimizing new product designs, and the production processes of our customers' programs.

Research, development, and engineering (RD&E) expenses consist principally of employee related costs, third party development costs, program materials costs, depreciation, and allocated information technology and facilities costs.

Competition

The market for the products and services we provide is highly competitive. There are numerous competitors in the contract manufacturing industry, many of which have substantially more resources and are more geographically diverse than we are. Some of our competitors have similar international production capabilities, large financial resources and some have substantially greater manufacturing, research and development, and marketing resources. There is also competition from the manufacturing operations of our current and potential customers, who are continually evaluating the merits of manufacturing their products internally versus the advantages of outsourcing. We believe that we can currently compete favorably in these areas primarily on the basis of our international footprint, responsiveness, creativity, vertical production capability, quality, and cost.

Trademarks

Our name and logo are federally registered trademarks, and we believe they are valuable assets of our business.

Employees

We consider our employees to be our primary strength and we make considerable efforts to maintain a well-qualified workforce. Our employee benefits include bonus programs involving periodic payments to all employees based on meeting quarterly or fiscal year performance targets. We regularly provide transportation, medical services, and meals to all of our employees in foreign locations. The Company also has defined contribution plans available to U.S. employees who have attained age 21 and provide group health, life, and disability insurance plans. We also maintain share based compensation plans and other long-term incentive plans for certain employees and outside directors.

As of July 1, 2023, we had 5,447 full-time employees compared to 4,897 on July 2, 2022. Since we can have significant fluctuations in product demand, we seek to maintain flexibility in our workforce by utilizing skilled temporary labor in some of our manufacturing facilities in addition to full-time employees.

Backlog

On July 29, 2023, our order backlog was valued at approximately \$343.0 million, compared to approximately \$407.8 million on July 30, 2022. The amount of backlog is not necessarily indicative of future sales but can be indicative of trends in expected future sales revenue. Due to the relationships with our customers, we will occasionally allow orders to be canceled or rescheduled and as a result it is not a meaningful indicator of future financial results. If there are canceled or rescheduled orders, we typically negotiate fees to cover the costs we have incurred. Order backlog consists of purchase orders received for products expected to be shipped approximately within the next twelve months, although shipment dates are subject to change due to design modifications, customer forecast changes, or other customer requirements.

Foreign Markets

Information concerning net sales and long-lived assets (property, plant, and equipment) by geographic areas is set forth in Footnote "Enterprise-Wide Disclosures" of the "Notes to Consolidated Financial Statements" of this Annual Report on Form 10-K and that information is incorporated herein by reference.

Governmental Regulation

Our operations are subject to certain foreign, federal, state and local regulations relating to, among others, environmental, waste management, labor and health and safety matters. We have implemented processes and procedures to help ensure that our operations are in substantial compliance with all applicable regulations. However, material costs and liabilities may arise from these requirements or from new or modified requirements, which could have a material adverse effect on our business and results of operations.

Information about Our Executive Officers.

The table below sets forth the name, current age and current position of our executive officers and other significant employees:

Name	Age	Positions Held
<i>Executive Officers</i>		
Craig D. Gates	64	President and Chief Executive Officer
Brett R. Larsen	50	Executive Vice President of Administration, Chief Financial Officer, and Treasurer
Philip S. Hochberg	61	Executive Vice President of Business Development
Duane D. Mackleit	55	Executive Vice President of Operations
David H. Knaggs	42	Executive Vice President of Quality and Information Systems
Chad T. Orebaugh	52	Executive Vice President of Engineering
Mark Courtney	57	Vice President of Supply Chain

Executive Officers

CRAIG D. GATES – President and Chief Executive Officer

Mr. Gates, age 64, has been President and Chief Executive officer of the Company since April 2009. Previously, he was Executive Vice President and General Manager from August 2002 to April 2009. He served as Executive Vice President of Marketing, Engineering and Sales from July 1997 to August 2002 and served as Vice President and General Manager of New Business Development from October 1995 to July 1997. He joined the Company as Vice President of Engineering in October of 1994. From 1982 to 1991 he held various engineering and management positions within the Microswitch Division of Honeywell, Inc., in Freeport, Illinois, and from 1991 to October 1994 he served as Director of Operations, Electronics for Microswitch. Mr. Gates has a Bachelor of Science Degree in Mechanical Engineering and a Master’s in Business Administration from the University of Illinois, Urbana.

BRETT R. LARSEN – Executive Vice President of Administration, Chief Financial Officer, and Treasurer

Mr. Larsen, age 50, has served as Executive Vice President of Administration, Chief Financial Officer, and Treasurer since July 2015. Previously, he was Vice President of Finance and Controller from February 2010 to July 2015. He was Chief Financial Officer of FLSmidth Spokane, Inc. from December 2008 to February 2010. From October 2005 through November 2008, Mr. Larsen served as Controller of Key Tronic Corporation. From May 2004 to October 2005, Mr. Larsen served as Manager of Financial Reporting of Key Tronic Corporation. From 2002 to May 2004, Mr. Larsen was an audit manager for the public accounting firm BDO USA, LLP. He also held various auditing and supervisory positions with Grant Thornton LLP from 1997 to 2002. Mr. Larsen has a Bachelor of Science degree in Accounting and a Masters degree in Accounting from Brigham Young University and is a Certified Public Accountant.

PHILIP S. HOCHBERG – Executive Vice President of Business Development

Mr. Hochberg, age 61, has been Executive Vice President of Business Development since July 2012. Prior to this, Mr. Hochberg served as Vice President of Business Development from October 2009 through June 2012. He was Director of Business Development and Program Management from July 2008 to October 2009. Mr. Hochberg served as Director of Business Development from October 2004 to July 2008 and as Director of EMS Sales and Marketing from July 2000 to October 2004. Prior to joining Key Tronic, Mr. Hochberg worked for Quinton Instrument Company as their Director of Marketing and Product Management from 1992 to 2000. From 1988 to 1992, he was employed by SpaceLabs Medical as their Business Development Marketing Manager. Mr. Hochberg has an MBA from the University of British Columbia, a BA in Psychology, with a minor in Business from Washington University in St. Louis.

DUANE D. MACKLEIT – Executive Vice President of Operations

Mr. Mackleit, age 55, has been Executive Vice President of Operations since December 2019. Prior to this, Mr. Mackleit served as Vice President of Program Management since July 2012. He served as Director of Program Management from July 2008 through June 2012. From May 2006 to July 2008 he served as Principal Program Manager. Prior to that, he served as Program Manager from March 2002 to May 2006 and Associate Program Manager from August 2000 to March 2002. Mr. Mackleit has also held several other positions with Key Tronic Corporation. Mr. Mackleit has an AA in Business from Spokane Falls Community College and a BA in Business/Marketing from Eastern Washington University. He also holds a MBA from Gonzaga University.

DAVID H. KNAGGS – Executive Vice President of Quality, Regulatory Affairs and Information Systems

Mr. Knaggs, age 42, has been Executive Vice President of Quality and Information Systems since May 2021. Previously, he was Vice President of Quality and Regulatory Affairs from November 2017 to May 2021. He was Vice President of Quality since October 2016. Before joining Key Tronic, Mr. Knaggs worked at Telect, Inc. from 2008 to 2016 as their Director of

Engineering. Prior to that, he worked at Isothermal Systems Research as Lead Systems Engineer from 2003 to 2008. He has a Bachelor of Science degree in Mechanical Engineering with a minor in mathematics from the University of Washington.

CHAD T. OREBAUGH – Executive Vice President of Engineering

Mr. Orebaugh, age 52, has been Executive Vice President of Engineering since September 2021. Previously he served as Vice President of Engineering since April 2017. Prior to this, Mr. Orebaugh served as Director of Engineering since May 2013. From April 2010 to May 2013, he served as Manager of Engineering. From January 2000 to April 2010 he served as Lead Mechanical Engineer. Prior to that, he served as Mechanical Engineer from October 1998 to January 2000 and Associate Mechanical Engineer since October 1997. Mr. Orebaugh holds a BA in Mechanical Engineering from Gonzaga University.

MARK COURTNEY – Vice President of Supply Chain

Mark Courtney, age 57, has been Vice President of Supply Chain of the company since August 2019. Previously, he served as Purchasing Manager and Director of North American Purchasing from September 2015 to August 2019, and as Supply Chain Manager, ERP and Business Operations Manager for Amphenol Telect from August 2007 to September 2015. From March 2006 to August 2007, he served as Senior Buyer/Planner for Honeywell Specialty Materials and from June 2005 to March 2006 as Purchasing Manager for MRV Communications. From May 2000 to June 2005, he served as a Field and Inside Sales Associate for Arrow Electronics and from October 1991 to May 2000 held various positions at Alesis.

Available Information

Our principal executive offices are located at 4424 North Sullivan Road, Spokane Valley, Washington 99216, and our telephone number is (509) 928-8000. Our website is located at <http://www.keytronic.com> where filings of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q or current reports on Form 8-K are available free of charge after they have been filed with the Securities and Exchange Commission. The information presented on our website currently and in the future is not considered to be part of this document or any document incorporated by reference in this document.

In addition, the SEC maintains an Internet site (at www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. RISK FACTORS

There are risks and uncertainties that could affect our business. These risks and uncertainties include but are not limited to, the risk factors described below, in Item 7A: “Quantitative and Qualitative Disclosures about Market Risk” and elsewhere in this Annual Report on Form 10-K.

RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

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

RISKS RELATED TO OUR BUSINESS AND STRATEGY

Our operations may be subject to certain risks.

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

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

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

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

We may experience fluctuations in quarterly results of operations.

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

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

Operating results can also fluctuate if changes are made to significant estimates and assumptions. Significant estimates and assumptions include the allowance for doubtful receivables, net realizable inventory, revenue recognition, and the valuation allowance on deferred tax assets.

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

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

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

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

The majority of our sales come from a small number of customers and a decline in sales to any of these customers could adversely affect our business.

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

The loss of one or more of our major customers, or the reduction, delay or cancellation of orders from such customers, due to economic conditions or other forces, could materially and adversely affect our business, operating results and financial condition. The contraction in demand from certain industries could impact our customer orders and have a negative impact on our operations over the foreseeable future. Additionally, if one or more of our customers were to become insolvent or otherwise unable to pay for the manufacturing services provided by us, our operating results and financial condition would be adversely affected.

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

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

Key Tronic continues to work closely with its employees and key suppliers to ascertain delays attributable to the COVID-19 pandemic. Delays in production and extended transit times of critical parts have and may continue to cause a shortage of components.

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

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

we have invested in development of products for customers, thereby enabling such competitors to offer lower prices on such products due to savings in development costs.

Fluctuations in foreign currency exchange rates could increase our operating costs.

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

Global economic and political events, including as a result of COVID-19, can lead to significant currency exchange fluctuations can occur causing unexpected losses. Future temporary closures of production facilities in Mexico could also cause significant changes in our ability to qualify for hedge accounting treatment of our forward contracts to hedge foreign currency fluctuations. However, given the unprecedented nature of the pandemic the FASB staff believes that an entity may apply the exception in paragraph 815-30-40-4 for rare cases caused by extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of an entity to delays in the timing of the forecasted transactions if those delays are related to the effects of the COVID-19 pandemic and are considered probable to still occur. In addition, the FASB staff believes that it would be acceptable for an entity to determine that missed forecasts related to the effects of the COVID-19 pandemic need not be considered when determining whether it has exhibited a pattern of missing forecasts that would call into question its ability to accurately predict forecasted transactions and the propriety of using cash flow hedge accounting in the future for similar transactions.

Our success will continue to depend to a significant extent on our key personnel.

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

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

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

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

Changes in demand for customer products reduce our ability to accurately estimate the future requirements of our customers. This makes it difficult to schedule production and maximize utilization of our manufacturing capacity. We must determine the levels of business that we will seek and accept from customers, set production schedules, commit to procuring inventory, and allocate personnel and resources, based on our estimates of our customers' requirements. Customers can require sudden increases and decreases in production which can put added stress on resources and reduce margins. Sudden decreases in production can lead to excess inventory on hand which may or may not be reimbursed by our customers even when under contract.

Continued growth could further lead to capacity constraints. We may need to transfer production to other facilities, acquire new facilities, or outsource production which could negatively impact gross margin. The Company has been able to manage the arrival of components in an effort to control inventory levels of customers that have seen sharp decreases in demand as a result of market conditions.

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

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

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

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

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

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

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

Energy price increases may negatively impact our results of operations.

Certain components that we use in our manufacturing process are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources in our transportation activities. While significant uncertainty currently exists about the future of energy prices, a significant increase, such as the increased fuel prices experienced in fiscal year 2023, is possible. Increased energy prices could cause an increase to our raw material and transportation costs. In addition, increased transportation costs related to certain suppliers and customers could be passed along to us. We may not be able to increase our product prices enough to offset these increased costs. In addition, any increase in our product prices may reduce our future customer orders and profitability.

TECHNOLOGY RISKS

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

We are increasingly dependent on digital technologies and services to conduct our operations. We use these technologies for internal purposes, including data storage, processing and transmissions, as well as in our interactions with vendors and customers. Digital technologies and services are subject to the risk of cybersecurity incidents and some incidents can remain undetected for a period of time.

We routinely monitor our systems for cyber threats and have processes in place to detect and remediate vulnerabilities. Nevertheless, we have experienced security breaches, such as phishing emails and other targeted attacks. We expect that our operations will continue to be subject to cyber threats, and any future cybersecurity incident could significantly disrupt our operations.

Cybersecurity incidents could also result in the misappropriation of proprietary or confidential information of the Company or that of its customers, employees, vendors or suppliers. We expect to incur costs in the future to mitigate against cybersecurity incidents as threats are expected to continue and to become more persistent and sophisticated. If our systems for protecting against cybersecurity incidents prove to be insufficient, we could be adversely affected by, among other things, loss of or damage to intellectual property, proprietary or confidential information, or employee, vendor or customer data; interruption of our business operations; and increased costs to prevent, respond to or mitigate cybersecurity incidents. These risks could harm our reputation and our relationships with employees, vendors and customers and may result in claims or enforcement actions and investigations against us.

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

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

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

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

RISKS RELATED TO CAPITAL AND FINANCING

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

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

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

There is no assurance that we will be able to retain or replace our credit agreements in the future or obtain sufficient capital for operating requirements. In the event the business grows rapidly or there is uncertainty in the macroeconomic climate, additional financing resources could be necessary. There is no assurance that we will be able to obtain equity or debt financing at acceptable terms, maintain sufficient borrowing capacity on the existing revolver, or at all in the future. In addition, we have restrictive covenants with our financial institution which could impact how we manage our business. If we cannot meet our financial covenants, our borrowings could become immediately payable which could have a material adverse impact on our financial statements. For a summary of our banking arrangements, see Footnote "Long-Term Debt" of the "Notes to Consolidated Financial Statements."

An adverse change in the interest rates for our borrowings could adversely affect our financial condition.

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

Our stock price is volatile.

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

RISKS RELATED TO OUR CONTROLS AND PROCEDURES AND THE INTERNAL INVESTIGATION

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

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

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

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

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

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

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

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

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

LEGAL AND ACCOUNTING RISKS

We are involved in various legal proceedings.

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

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

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

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

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

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

GENERAL RISKS

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES AS OF DATE OF FILING

We have manufacturing and sales operations located in the United States, Mexico, China and Vietnam. The table below lists the locations and square footage of our operating facilities:

Location	Approx. Sq. Ft.	Type of Interest (Leased/Owned)	Description of Use
Corinth, Mississippi	350,000	Leased	Manufacturing and warehouse
El Paso, Texas	80,000	Leased	Shipping and warehouse
Fayetteville, Arkansas	105,000	Leased	Manufacturing and warehouse
Oakdale, Minnesota	103,000	Leased	Manufacturing and warehouse
Spokane Valley, Washington	95,000	Leased	Sales, research, administration and manufacturing
Spokane Valley, Washington	36,000	Leased	Manufacturing
Total USA	769,000		
Juarez, Mexico	193,000	Leased	Warehouse
Juarez, Mexico	174,000	Owned	Manufacturing and warehouse
Juarez, Mexico	115,000	Owned	Manufacturing and warehouse
Juarez, Mexico	103,000	Owned	Manufacturing and warehouse
Juarez, Mexico	72,000	Leased	Manufacturing and warehouse
Juarez, Mexico	66,000	Owned	Manufacturing and warehouse
Juarez, Mexico	60,000	Owned	Manufacturing and warehouse
Juarez, Mexico	116,000	Leased	Manufacturing and warehouse
Juarez, Mexico	159,000	Leased	Manufacturing and warehouse
Total Mexico	1,058,000		
Shanghai, China	9,000	Leased	Manufacturing and warehouse
Total China	9,000		
Da Nang, Vietnam	133,000	Leased	Manufacturing and warehouse
Total Vietnam	133,000		
Grand Total	<u>1,969,000</u>		

The geographic diversity of these locations allows us to offer services near certain of our customers and major electronics markets with the additional benefit of reduced labor costs. We consider the productive capacity of our current facilities sufficient to carry on our current business. In addition, in Juarez, Mexico one of our buildings includes adjacent vacant land that could be developed into additional manufacturing and warehouse space.

All our facilities are ISO certified to ISO 9001:2015 standard and to Customs Trade Partnership against Terrorism (CTPAT).

- The Spokane, Washington facility is registered to IATF 16949 automotive standard, ISO 13485:2016 medical devices, ISO 14001:2015 environmental standard, and ISO 45001 Occupational Health and Safety Management System.
- The Juarez, Mexico facility is registered to IATF 16949 automotive standard, ISO 13485:2016 medical devices, ISO 14001:2015 environmental standard, ISO 45001 Occupational Health and Safety Management System, and has a certified ANSI/ESD S20.20 Electrostatic Discharge Program.
- The Da Nang, Vietnam facility is additionally registered to IATF 16949 automotive standard.
- The Shanghai, China facility is additionally registered to IATF 16949 automotive standard, ISO 45001 Occupational Health and Safety Management System, ISO 14001:2015 environmental standard, and has a certified ANSI/ESD S20.20 Electrostatic Discharge Program.
- The Oakdale, Minnesota facility is additionally registered to ISO 13485:2016 medical devices standard, AS9100D aviation, space and defense standard, has a certified ANSI/ESD S20.20 Electrostatic Discharge Control Program, and is NADCAP certified.
- The Fayetteville, Arkansas facility is additionally registered to AS9100D aviation, space and defense standard and have a certified ANSI/ESD S20.20 Electrostatic Discharge Control Program.
- The Corinth, Mississippi facility is additionally registered to ISO 14001:2015 and ISO/IEC 80079-34 explosive atmospheres.

- The Oakdale, Minnesota; Corinth, Mississippi; Fayetteville, Arkansas and Spokane, Washington facilities are all registered with the U.S. State Department for International Traffic in Arms Regulations (ITAR).

Item 3. LEGAL PROCEEDINGS

We are a party to certain lawsuits or claims in the ordinary course of business. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flow, although an adverse resolution against the Company in a fiscal quarter or year could have a material adverse effect on the Company's results of operations in a particular quarter or year. For further details on claims, see Note 9. Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the NASDAQ Global Market under the symbol "KTCC." Quarterly high and low sales prices for our common stock for fiscal year 2023 and fiscal year 2022 were as follows:

	2023		2022	
	High	Low	High	Low
First Quarter	\$ 5.50	\$ 4.00	\$ 7.48	\$ 6.45
Second Quarter	5.18	4.03	6.73	5.95
Third Quarter	7.50	4.33	6.55	5.26
Fourth Quarter	7.53	5.18	5.74	4.27

High and low stock prices are based on the daily sales prices reported by the NASDAQ Stock Market. These quotations represent prices between dealers without adjustment for markups, markdowns, and commissions, and may not represent actual transactions.

Holdings and Dividends

As of July 1, 2023, we had 569 shareholders of common stock on record. As a result of our credit agreements, we are restricted from declaring or paying dividends in cash or stock without Bank of America's prior written consent. We have not paid a cash dividend and do not anticipate payment of dividends in the foreseeable future.

Equity Compensation Plan Information

Information concerning securities authorized for issuance under our equity compensation plans is set forth in Part III, Item 12 of this Annual Report on Form 10-K, under the caption "Equity Compensation Plan Information," and that information is incorporated herein by reference.

Performance Graph

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and therefore are not required to provide the performance graph required in paragraph (e) of Item 201 of Regulation S-K.

Item 6: [RESERVED]

Item 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

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

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

Executive Summary

During the fourth quarter of fiscal year 2023, we won new programs involving inventory control, clean energy, and distribution monitoring equipment.

We reported net sales of \$588.1 million for fiscal year 2023, the highest annual revenue in the Company's history, and up 11% from \$531.8 million for fiscal year 2022. Record annual revenue and strong earnings in fiscal year 2023 was driven by successful new program ramps and increased demand from a number of longstanding customer programs.

Moving into fiscal 2024, we expect a strong Mexican Peso valuation to the US Dollar and relatively high interest expense to constrain our bottom line. At the same time, global logistics problems and heightened assurance of supply concerns continue to drive the favorable trend of contract manufacturing returning to North America.

For the first quarter of fiscal year 2024, the Company expects to report revenue in the range of \$140 million to \$150 million. We continue to see a trend of contract manufacturing returning to North America and a growing number of potential customers evaluating a migration of their China-based manufacturing to our facility in Vietnam. We move into fiscal year 2024 with a strong backlog and pipeline of potential new business, our inventory more in line with our revenue levels, and continuing improvement in the global supply issues and lower labor turnover. However, we are also seeing some softening in demand from several large customers and one large customer is pausing production during the next quarter to resolve certain of their design issues. Over the longer term, we are well positioned for continued growth and profitability.

We have continued to diversify our customer base by adding additional programs and customers. Our current customer relationships involve a variety of products including consumer electronics, electronic storage devices, plastics, household products, gaming devices, specialty printers, telecommunications, industrial equipment, military supplies, computer accessories, medical, educational, irrigation, automotive, transportation management, robotics, RFID, power supply, off-road vehicle equipment, fitness equipment, HVAC controls, consumer products, home building products, material handling systems, lighting equipment, consumer security products, smart security, architectural LED lighting, power meters and smart grid, wireless power solutions, sanitizer dispensing, automotive controllers, oil and gas drilling, power equipment, and wireless security.

Gross profit as a percentage of net sales was 8.1 percent in both fiscal year 2023 and 2022, respectively. During fiscal year 2023, the gross margins benefited by increased revenue levels along with some stabilization in the labor market. However, our gross margin was also adversely impacted by the strengthening of the Mexican Peso relative to the US Dollar. The level of gross margin is impacted by product mix, timing of the startup of new programs, facility utilization, and pricing within the electronics industry and material costs, which can fluctuate significantly from quarter-to-quarter and year-to-year.

Operating income as a percentage of net sales for fiscal year 2023 was 2.8 percent compared to 1.7 percent for fiscal year 2022. The increase in operating income as a percentage of net sales was primarily driven by the gains on insurance proceeds from the claim on a lightning strike at our Arkansas production facility.

Net income for fiscal year 2023 was \$5.2 million or \$0.47 per share, as compared to \$3.4 million or \$0.31 per share for fiscal year 2022. Earnings for fiscal 2023 continued to be adversely impacted by supply chain, transportation and logistics issues, and increased interest expense.

We maintained a strong balance sheet with a current ratio of 2.3 and a debt-to-equity ratio of 0.99. Total cash used in operating activities as defined on our cash flow statement was \$11.3 million during fiscal year 2023, as working capital has increased to support increased revenue. We believe we maintain sufficient liquidity for our expected future operations, dependent upon executing projected cash flows from operations and potentially adding additional credit capacities through refinancing current credit agreements or pursuing additional debt structures.

RESULTS OF OPERATIONS

Comparison of the Fiscal Year Ended July 1, 2023 with the Fiscal Year Ended July 2, 2022

The following table sets forth for the periods indicated certain items of the consolidated statements of income expressed as a percentage of net sales. The financial information and discussion below should be read in conjunction with the consolidated financial statements and Footnotes contained in this Annual Report on Form 10-K.

	Fiscal Year Ended					
	July 1, 2023	% of net sales	July 2, 2022	% of net sales	\$ change	% point change
Net sales	\$ 588,135	100.0%	\$ 531,815	100.0%	\$ 56,320	—
Cost of sales	540,663	91.9	488,601	91.9	52,062	—
Gross profit	47,472	8.1	43,214	8.1	4,258	—
Operating expenses:						
Research, development and engineering	9,735	1.7	9,821	1.8	(86)	(0.1)
Selling, general and administrative	25,715	4.4	24,598	4.6	1,117	(0.2)
Gain on insurance proceeds, net of losses	(4,301)	(0.7)	—	—	(4,301)	(0.7)
Total operating expenses	31,149	5.4	34,419	6.4	(3,270)	(1.0)
Operating income	16,323	2.8	8,795	1.7	7,528	1.1
Interest expense, net	10,023	1.7	5,104	1.0	4,919	0.7
Income before income taxes	6,300	1.1	3,691	0.7	2,609	0.4
Income tax provision	1,143	0.2	314	0.1	829	0.1
Net income	\$ 5,157	0.9%	\$ 3,377	0.6%	\$ 1,780	0.3
Effective income tax rate	18.1 %		8.5 %			

Net Sales

The increase in net sales of \$56.3 million from the prior fiscal year was primarily due to the successful ramp of new customer programs and increased demand from existing customers. However, the Company's revenue was constrained by tightening worldwide supply chain and transportation and logistics issues, which delayed the arrival of certain key components, causing factory downtime and overtime expenses.

The following table shows the revenue by industry sectors as a percentage of revenue for fiscal years 2023 and 2022:

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
Consumer	45	48
Industrial	41	41
Communication	9	7
Transportation	3	1
Gaming	1	1
Medical	1	—
Printers	—	1
Computer and Peripheral	—	1
Total	100%	100%

We provide services to customers in a number of industries and produce a variety of products for our customers in each industry. Key Tronic does not target any particular industry, but rather seeks to find programs that strategically fit our vertical manufacturing capabilities. As we continue to diversify our customer base and win new customers, we expect to continue to see a change in the industry concentrations of our revenue.

Sales to foreign locations represented 14.60% percent and 17.64% percent of our total net sales in fiscal years 2023 and 2022, respectively.

Cost of Sales

Total cost of sales as a percentage of net sales was 91.9 percent in fiscal year 2023 and 91.9 percent in fiscal year 2022.

We record our inventories at net realizable value based on specific identification of inventory against current demand and recent usage. We also consider our customers' ability to pay for inventory whether or not there is a lead-time assurance agreement for a specific program. The amounts charged to expense for these inventories were approximately \$427,000 and \$950,000 in fiscal years 2023 and 2022, respectively.

We provide warranties on certain products we sell and estimate warranty costs based on historical experience and anticipated product returns. Warranty expense is related to workmanship claims. The amounts charged to expense are determined based on an estimate of warranty exposure. The net warranty expense was approximately \$313,000 and \$446,000 in fiscal years 2023 and 2022, respectively.

Gross Profit

Gross profit as a percentage of net sales was 8.1 percent in fiscal years 2023 and 2022. During fiscal year 2023, the gross margins benefited by increased revenue levels along with some stabilization in the labor market. However, our gross margin was also adversely impacted by the strengthening of the Mexican Peso relative to the US Dollar.

Changes in gross profit margins reflect the impact of a number of factors that can vary from period to period, including product mix, start-up costs and efficiencies associated with new programs, product life cycles, sales volumes, capacity utilization of our resources, management of inventories, component pricing and shortages, end market demand for customers' products, fluctuations in and timing of customer orders, and competition within the contract manufacturing industry. These and other factors can cause variations in operating results. There can be no assurance that gross margins will not decrease in future periods.

Research, Development and Engineering

Research, development and engineering expenses (RD&E) consist principally of employee related costs, third-party development costs, program materials, depreciation, and allocated information technology and facilities costs. Total RD&E expenses were \$9.7 million and \$9.8 million in fiscal years 2023 and 2022, respectively. Total RD&E expenses as a percent of net sales was 1.7 percent in fiscal year 2023 and 1.8 percent in fiscal year 2022.

Selling, General and Administrative

Selling, general, and administrative expenses (SG&A) consist principally of salaries and benefits, advertising and marketing programs, sales commissions, travel expenses, provision for doubtful accounts, facilities costs, and professional services. Total SG&A expenses were \$25.7 million and \$24.6 million in fiscal years 2023 and 2022, respectively. Total SG&A expenses as a percent of net sales were 4.4 percent and 4.6 percent in fiscal years 2023 and 2022, respectively. This 0.2 percentage point decrease in SG&A as a percentage of net sales is primarily related to an increase in legal expenses related specifically to the SEC's review of the whistleblower complaint in fiscal year 2021.

Interest Expense

We had net interest expense of \$10.0 million and \$5.1 million in fiscal years 2023 and 2022, respectively. The increase in interest expense is primarily related to increased interest rates, an increase in the average balance outstanding on our line of credit, and financing leases.

Income Tax Provision

We had an income tax expense of approximately \$1.1 million during fiscal year 2023 and an income tax expense of approximately \$0.3 million during fiscal year 2022. The income tax expense recognized during both fiscal years 2023 and 2022 was primarily a function of U.S. and foreign taxes recognized at statutory rates, the net benefit associated with federal research and development tax credits, the impact of foreign exchange gains in fiscal year 2023, and the net benefit of carrying back the fiscal year 2021 net operating tax losses to years with higher federal tax rates in fiscal year 2022.

We continually review our requirements for liquidity domestically to fund current operations, revenue growth, and to look for potential future acquisitions. We anticipate repatriating a portion of our unremitted foreign earnings. The estimated taxes associated with these expected repatriations are included in the income tax calculation. For further information on taxes, please review Footnote "Income Taxes" of the "Notes to Consolidated Financial Statements".

International Subsidiaries

We offer customers a complete global manufacturing solution. Our facilities provide our customers the opportunity to have their products manufactured in the facility that best serves specific cost, product manufacturing, and distribution needs. The locations of our active foreign subsidiaries are as follows:

- Key Tronic Juarez, SA de CV owns five facilities and leases four facilities in Juarez, Mexico. These facilities include an SMT facility, an assembly and molding facility, a sheet metal fabrication facility, and assembly and warehouse facilities. This subsidiary primarily supports our U.S. operations.
- Key Tronic Computer Peripherals (Shanghai) Co., Ltd. leases one facility with SMT, assembly, global purchasing, and warehouse capabilities in Shanghai, China, which began operations in 1999. Its primary function is to provide contract manufacturing services.
- Key Tronic Vietnam leases one facility in Da Nang, Vietnam. This facility includes SMT, assembly, and warehouse capabilities. Its primary function is to provide contract manufacturing services for export.

Foreign sales (based on shipping instructions) from our worldwide operations, including domestic exports, were \$85.9 million and \$93.8 million in fiscal years 2023 and 2022, respectively. Products and manufacturing services provided by our subsidiary operations are often shipped to customers directly by the parent company.

RESULTS OF OPERATIONS

Comparison of the Fiscal Year Ended July 2, 2022 with the Fiscal Year Ended July 3, 2021

To review the results of operations comparison of the fiscal year ended July 2, 2022 with the fiscal year ended July 3, 2021, please refer to our Annual Report on Form 10-K filed September 14, 2022 with the Securities and Exchange Commission or follow the link below.

<https://www.sec.gov/ix?doc=/Archives/edgar/data/719733/000071973322000063/ktcc-20220702.htm>

Capital Resources and Liquidity

Operating Cash Flow

Net cash used in operating activities for fiscal year 2023 was \$11.3 million compared to \$4.9 million in fiscal year 2022. The additional cash used in fiscal year 2023 was predominately used for revenue growth that required additional working capital in increased receivables and paying down supplier payables during the year.

The \$11.3 million of net cash used in operating activities during fiscal year 2023 is primarily related to \$5.2 million of net income adjusted for \$9.5 million of depreciation and amortization, \$14.8 million increase in accounts receivable, a \$17.4 million decrease in inventory, a \$16.0 million increase in other liabilities, partially offset by a \$5.5 million decrease in accounts payable, \$8.0 million increase in contract assets, and a \$1.5 million increase in accrued compensation and vacation.

The \$4.9 million of net cash used in operating activities during fiscal year 2022 was primarily related to \$3.4 million of net income adjusted for \$7.6 million of depreciation and amortization, \$25.6 million increase in accounts receivable, a \$19.4 million increase in inventory, a \$3.6 million increase in other liabilities, partially offset by a \$28.6 million increase in accounts payable, and a \$2.8 million decrease in contract assets.

Accounts receivable fluctuates based on the timing of shipments, terms offered, and collections. We purchase inventory based on customer forecasts and orders. When those forecasts and orders change, the amount of inventory may also fluctuate. Accounts payable fluctuates with changes in inventory levels, volume of inventory purchases, negotiated supplier terms, and taking advantage of early pay discounts.

Investing Cash Flow

Cash flows used in investing activities were \$4.5 million for fiscal year 2023. Cash flows used in investing activities were \$8.1 million in fiscal year 2022. Our primary use of cash in investing activities during fiscal years 2023 and 2022 was purchasing equipment to support increased production levels for new programs. During fiscal year 2023, cash flows used in investing activities also included prepayments on finance lease obligations. During fiscal year 2023, the source of cash provided by investing activities came from insurance claims paid for replacing equipment and facility repairs in our Arkansas facility related to a lightning strike and water damage.

Leases are often utilized when potential technical obsolescence and funding requirement advantages outweigh the benefits of equipment ownership. Capital expenditures and periodic lease payments are expected to be financed with internally generated funds as well as our revolving line of credit facility and equipment term loan.

Financing Cash Flow

Cash flows provided by financing activities were \$17.7 million and \$11.2 million in fiscal years 2023 and 2022, respectively. Our primary financing activities during fiscal year 2023 were proceeds from capital equipment finance leases and borrowings and repayments under our revolving line of credit facility; partially offset by repayments on our term loans and principal payments on finance leases. Our primary financing activities during fiscal year 2022 were repayments on our term loans as well as borrowings and repayments under our revolving line of credit facility.

As of July 1, 2023, approximately \$4.6 million was available under the asset-based revolving credit facility and we were in compliance with our loan covenants.

Our cash requirements are affected by the level of current operations and new programs. We believe that projected cash from operations, funds available under the revolving credit facility and potential additional debt capacity will be sufficient to meet our working and fixed capital requirements for the foreseeable future. The Company further notes projected cash from operations is projected to improve in the coming quarters as supply chain availability will boost additional inventory turns and existing inventory is consumed by fulfilling customer backlog. As of July 1, 2023, we had approximately \$3.6 million of cash held by foreign subsidiaries. If cash is to be repatriated in the future from these foreign subsidiaries, the Company would be subject to certain withholding taxes in the foreign jurisdictions. The total amount of tax payments required for the amount of foreign subsidiary cash on hand as of July 1, 2023 would approximate \$64,000.

The Company also has approximately \$33.2 million of foreign earnings that have not been repatriated to the U.S. Of that amount, the Company estimates that \$7.6 million is to be repatriated in the future, requiring foreign withholding taxes of \$0.8 million that is currently accrued in our deferred tax liabilities. The remaining \$25.6 million is considered to be permanently reinvested in Mexico, China and Vietnam. If these amounts were required to be repatriated, we estimate it would create an additional \$0.8 million in foreign withholding taxes payable.

We have accrued withholding taxes for expected future repatriation of foreign earnings as discussed in Note 6 of the “Notes to Consolidated Financial Statements”.

Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of business, we enter into contracts which obligate us to make payments in the future. We have certain contractual obligations that extend beyond fiscal year 2023 under lease obligations and debt arrangements.

As of July 1, 2023, we had open purchase order commitments for materials and other supplies. Actual needs under these blanket purchase orders fluctuate with our manufacturing levels and as such cannot be broken out between fiscal years. In addition, we have contracts with many of our customers that minimize our exposure to losses for material purchased within lead-times necessary to meet customer forecasts. Purchase orders generally can be cancelled without penalty within specified ranges that are determined in negotiations with our suppliers. These agreements depend in part on the type of materials purchased as well as the circumstances surrounding any requested cancellations. We do not use off-balance sheet financing techniques other than traditional operating leases, and we have not guaranteed the obligations of any entity that is not one of our wholly owned subsidiaries.

For a summary of our lease obligations as of July 1, 2023, please refer to Note 15 “Leases” of the “Notes to Consolidated Financial Statements.”

For a summary of our long-term debt obligations as of July 1, 2023, please refer to Note 4 “Long-Term Debt” of the “Notes to Consolidated Financial Statements.”

Critical Accounting Policies and Estimates

Preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Note 1 “Significant Accounting Policies” of the “Notes to Consolidated Financial Statements” describes the significant accounting policies used in the preparation of our consolidated financial statements. Management believes the most complex and sensitive judgments, because of their significance to our consolidated financial statements, result primarily from the need to make estimates about effects of matters that are inherently uncertain. The most significant areas involving management judgments are described below. Actual results in these areas could differ from management’s estimates.

Revenue

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

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

Inactive, Obsolete, and Surplus Inventory Valuation

Inventories are stated at the lower of cost or net realizable value. Inventory valuation is determined using the first-in, first-out (FIFO) method. We write down inventories that we deem inactive, obsolete, or surplus to net realizable value. The write down is calculated based upon the demand for the products that we produce to value this related inventory at net realizable value. Demand is determined by expected sales, customer purchase orders, or customer forecasts. If expected sales do not materialize, excess inventory would be the result and a write down of that inventory against earnings would occur. In the case where we have purchased material based upon a customer’s forecast or purchase orders, we are usually covered by lead-time assurance agreements or purchase orders with each customer. These contracts state that the financial liability for material purchased within agreed upon lead-time and based upon the customer’s forecasts, lies with the customer. If we purchase material outside the lead-time assurance agreement and the customer’s forecasts do not materialize or if we have no lead-time assurance agreement for a specific program, we would have the financial liability and may have to charge inactive, obsolete or surplus inventory against earnings. We also write down inventory values related to specific customers covered by lead-time assurance agreements when those customers are experiencing financial difficulties or reimbursement is not reasonably assured.

Allowance for Doubtful Accounts

We value our accounts receivable net of an allowance for doubtful accounts. As of July 1, 2023, the allowance for doubtful accounts was approximately \$23,000. As of July 2, 2022, the allowance for doubtful accounts was approximately \$12,000. This allowance is based on estimates of the portion of accounts receivable that may not be collected in the future. The estimates used are based primarily on specific identification of potentially uncollectible accounts. Such accounts are identified using publicly available information in conjunction with evaluations of current payment activity. However, if any of our customers were to develop unexpected and immediate financial problems that would prevent payment of open invoices, we could incur additional and possibly material expenses that would negatively impact earnings.

Income Taxes

Income tax expense includes U.S. and international income taxes and a provisional estimate for U.S. taxes on undistributed earnings of foreign subsidiaries. We do not record foreign withholding taxes on undistributed earnings of international subsidiaries that are deemed to be permanently reinvested. Certain income and expenses are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. The deferred income taxes are classified as long-term assets or liabilities. The most significant areas involving management judgments include deferred income tax assets and liabilities, uncertain tax positions, and research and development tax credits. Our estimates of the realization of the deferred tax assets related to our tax credits are based upon our estimates of future taxable income which may change.

New and Future Accounting Pronouncements

See Note 1 “Significant Accounting Policies” of the “Notes to Consolidated Financial Statements.”

Item 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are subject to the risk of fluctuating interest rates in the normal course of business. Our major market risk relates to our secured debt. Our asset-based senior secured revolving credit facility, and equipment financing facility are secured by substantially all of our assets. The interest rates applicable to our asset-based senior secured revolving credit facility fluctuate with SOFR rates. There was outstanding \$115.4 million in borrowings under our asset-based senior secured revolving credit facility and \$9.9 million outstanding on our equipment financing facilities as of July 1, 2023. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity” in this Annual Report on Form 10-K and Note 4 “Long-Term Debt” of the “Notes to Consolidated Financial Statements” for additional information regarding our revolving credit facility and term loans.

Foreign Currency Exchange Risk

A significant portion of our operations are in foreign locations. As a result, transactions occur in currencies other than the U.S. dollar. Exchange rate fluctuations among other currencies used by us directly and indirectly affect our financial results. We may use Mexican peso forward contracts to hedge future foreign currency fluctuations for a portion of our Mexican peso denominated expenses. There were no foreign currency forward contracts outstanding as of July 1, 2023. For additional information regarding our derivative instruments, please refer to Note 10 “Derivative Financial Instruments” of the “Notes to Consolidated Financial Statements.”

Item 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Key Tronic Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Key Tronic Corporation (the “Company”) as of July 1, 2023 and July 2, 2022, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of July 1, 2023 and July 2, 2022, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

As described in Notes 1 and 12 to the consolidated financial statements, the Company reported revenue of \$588.1 million for the year ended July 1, 2023, of which \$573.4 million related to revenue recognized over time. The Company has determined that for the majority of its contracts the Company is manufacturing products for which there is no alternative use due to the unique nature of the customer-specific product, intellectual property, and other contract restrictions. The Company has an enforceable right to payment including a reasonable profit for performance completed to date with respect to these contracts. As a result, revenue is recognized under these contracts over-time based on the input cost-to-cost method as it better depicts the transfer of control. This input method is based on the ratio of costs incurred to date as compared to the total estimated costs at completion of the performance obligation.

We identified revenue recognized over time on contracts for manufacturing products as a critical audit matter. Management’s calculation includes reports with varying elements, to estimate costs incurred to date for various performance obligations. Auditing management’s estimates used in the calculation of revenue recognized over time involved especially challenging and subjective auditor judgment when performing audit procedures and evaluating the results of those procedures.

The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of internal controls relating to revenue recognized over time, including controls over the quarterly calculation of in-process contracts, and the related contract assets.
- Evaluating the methodology of estimating costs incurred to date on in-process contracts and testing the completeness and accuracy of the system generated reports used to estimate costs incurred by recalculating the expected costs on in-process contracts, vouching to source documents, tracing in-process orders to subsequent sales and shipping documentation within a reasonable period after year-end, identifying and testing significant assumptions used in the revenue calculation, and performing data validation procedures.
- Comparing margins realized to trending historic margins, and comparing total revenue recognized to independent expectations of total revenues disaggregated by revenue stream.
- Performing cutoff procedures to test that revenue transactions were recorded in the appropriate period.

/s/ Moss Adams LLP

Seattle, Washington
September 26, 2023

We have served as the Company's auditor since 2021.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	July 1, 2023	July 2, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,603	\$ 1,707
Trade receivables, net of allowance for doubtful accounts of \$23 and \$12	150,600	135,876
Contract assets	29,925	21,974
Inventories, net	137,911	155,741
Other	27,510	24,710
Total current assets	349,549	340,008
Property, plant and equipment, net	28,870	26,012
Operating lease right-of-use assets, net	16,202	16,731
Other assets:		
Deferred income tax asset	12,254	10,055
Other	11,397	14,117
Total other assets	23,651	24,172
Total assets	<u>\$ 418,272</u>	<u>\$ 406,923</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 115,899	\$ 121,393
Accrued compensation and vacation	13,351	11,836
Current portion of debt, net	7,849	7,402
Other	14,867	23,036
Total current liabilities	151,966	163,667
Long-term liabilities:		
Term loans	6,726	5,716
Revolving loan	114,805	94,577
Operating lease liabilities	10,317	12,023
Deferred income tax liability	274	64
Other long-term obligations	3,567	5,998
Total long-term liabilities	135,689	118,378
Total liabilities	287,655	282,045
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock, no par value—shares authorized 25,000; issued and outstanding 10,762 and 10,762 shares, respectively	47,728	47,474
Retained earnings	82,986	77,829
Accumulated other comprehensive (loss) income	(97)	(425)
Total shareholders' equity	130,617	124,878
Total liabilities and shareholders' equity	<u>\$ 418,272</u>	<u>\$ 406,923</u>

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
Net sales	\$ 588,135	\$ 531,815
Cost of sales	540,663	488,601
Gross profit	47,472	43,214
Research, development and engineering expenses	9,735	9,821
Selling, general and administrative expenses	25,715	24,598
Gain on insurance proceeds, net of losses	(4,301)	—
Total operating expenses	31,149	34,419
Operating income	16,323	8,795
Interest expense, net	10,023	5,104
Income before income taxes	6,300	3,691
Income tax provision	1,143	314
Net income	\$ 5,157	\$ 3,377
Net income per share — Basic	\$ 0.48	\$ 0.31
Weighted average shares outstanding — Basic	10,762	10,762
Net income per share — Diluted	\$ 0.47	\$ 0.31
Weighted average shares outstanding — Diluted	10,938	11,063

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
Comprehensive income:		
Net income	\$ 5,157	\$ 3,377
Other comprehensive income:		
Unrealized gain (loss) on hedging instruments, net of tax	328	(2,497)
Comprehensive income	<u>\$ 5,485</u>	<u>\$ 880</u>

Other comprehensive income for fiscal years 2023 and 2022 is reflected net of tax provision (benefit) of approximately \$0 and \$(0.8) million, respectively.

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
Operating activities:		
Net income	\$ 5,157	\$ 3,377
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	9,542	7,562
Amortization of interest rate swap	328	301
Amortization of deferred loan costs	154	143
Noncash lease expense	5,712	4,261
Inventory write-down to net realizable value	427	950
Provision for warranty	313	446
Provision for doubtful accounts	37	67
Gain on disposal of assets	(21)	(12)
Gain on insurance proceeds, net of losses	(4,301)	—
Share-based compensation expense	254	293
Deferred income taxes	(1,989)	481
Changes in operating assets and liabilities		
Trade receivables	(14,760)	(25,619)
Contract assets	(7,951)	2,807
Inventories	17,403	(19,362)
Other assets	(1,684)	(5,912)
Accounts payable	(5,494)	28,569
Accrued compensation and vacation	1,515	365
Other liabilities	(15,953)	(3,624)
Cash used in operating activities	<u>(11,311)</u>	<u>(4,907)</u>
Investing activities:		
Purchases of property and equipment	(9,771)	(6,813)
Proceeds from sale of fixed assets	1,925	14
Prepayments on finance lease obligations	(188)	(1,252)
Proceeds from insurance	3,500	—
Cash used in investing activities	<u>(4,534)</u>	<u>(8,051)</u>
Financing activities:		
Payment of financing costs	(245)	(118)
Proceeds from issuance of long term debt	4,375	11,594
Repayments of long-term debt	(2,417)	(2,143)
Borrowings under revolving credit agreement	596,121	581,893
Repayments of revolving credit agreement	(575,802)	(577,703)
Principal payments on finance leases	(4,291)	(2,331)
Cash provided by financing activities	<u>17,741</u>	<u>11,192</u>
Net increase (decrease) in cash and cash equivalents	1,896	(1,766)
Cash and cash equivalents, beginning of period	1,707	3,473
Cash and cash equivalents, end of period	<u>\$ 3,603</u>	<u>\$ 1,707</u>
Supplemental cash flow information:		
Interest payments	\$ 802	\$ 5,110
Income tax payments, net of refunds	\$ 1,414	\$ 1,315
Recognition of operating lease liabilities and right-of-use assets	\$ 5,184	\$ 5,247
Recognition of financing lease liabilities and right-of-use assets	\$ 1,940	\$ 13,096

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In thousands)

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, July 3, 2021	10,762	47,181	74,452	2,072	\$ 123,705
Net income	—	—	3,377	—	3,377
Unrealized gain on hedging instruments, net of tax	—	—	—	(2,497)	(2,497)
Share-based compensation	—	293	—	—	293
Balances, July 2, 2022	10,762	\$ 47,474	\$ 77,829	\$ (425)	\$ 124,878
Net income	—	—	5,157	—	5,157
Unrealized loss on hedging instruments, net of tax	—	—	—	328	328
Share-based compensation	—	254	—	—	254
Balances, July 1, 2023	10,762	\$ 47,728	\$ 82,986	\$ (97)	\$ 130,617

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Business

Key Tronic Corporation and subsidiaries (the Company) is engaged in contract manufacturing for original equipment manufacturers (OEMs) and also manufactures keyboards and other input devices. The Company's headquarters are located in Spokane Valley, Washington with manufacturing operations in Oakdale, Minnesota; Fayetteville, Arkansas; Corinth, Mississippi; and foreign manufacturing operations in Juarez, Mexico; Shanghai, China; and Da Nang, Vietnam.

Due to the COVID-19 pandemic, the Company has seen extreme shifts in demand from its customer base, supply chain and logistics risks. The possibility of future temporary closures, as well as adverse fluctuations in customer demand, freight and expedite costs, precautionary safety expenses and labor shortages, collectability of accounts, and future supply chain disruptions during the rapidly changing COVID-19 environment can materially impact operating results. Additionally, continued adverse macroeconomic conditions and significant currency exchange fluctuations can also materially impact operating results.

Liquidity

Historically, we have financed operations and met our capital expenditure requirements primarily through cash flows provided by operations and borrowings under our credit facilities. We generated operating and net income of \$16.3 million and \$5.2 million, respectively, during the 12-month period ended July 1, 2023 and have positive working capital of \$197.6 million as of July 1, 2023. Due to the timing between the procurement of raw materials, production cycle and payment from our customers, we have relied on borrowings on our credit facilities to fund operations as the Company increased its revenues and backlog during fiscal year 2023. Based on current projections, we anticipate generating cash from operations as revenue slightly decreases in the first quarter of fiscal year 2024 and decreasing working capital requirements as existing backlog is manufactured and shipped.

As of July 1, 2023, we have limited additional borrowing capacity on our credit facility. We are in discussions with multiple financial institutions to extend the borrowing capacity on our credit facility. If we are unable to meet projected operating results or extend our borrowing capacity, we may need to delay the purchase of raw materials or require our customers to fund inventory raw material costs ahead of production. Other options to increase our liquidity include factoring receivables or leveraging foreign owned assets for additional borrowing capacity. We believe that projected cash from operations, funds available under our asset-based revolving credit facility and additional financing options will be sufficient to meet our working and fixed capital requirements for at least the next 12 months.

Reclassifications

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

Principles of Consolidation

The consolidated financial statements include the Company and its wholly owned subsidiaries in the United States, Mexico, China and Vietnam. Intercompany balances and transactions have been eliminated during consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates include the allowance for doubtful receivables, calculating inventory impairments related to obsolete and non-saleable inventories to value at net realizable value, deferred tax assets and liabilities, uncertain tax positions, impairment of long-lived assets, medical self-funded insurance liability, long-term incentive compensation accrual, the provision for warranty costs, and the fair value of stock appreciation rights granted under the Company's share-based compensation plan. Due to uncertainties with respect to the assumptions and estimates, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. The Company may have cash and cash equivalents at financial institutions that are in excess of federally insured limits from time to time.

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to an amount that management reasonably estimates will be collected. A specific allowance is recorded against receivables considered to be impaired based on the Company's knowledge of the financial condition of the customer. In determining the amount of the allowance, the Company considers several factors including the aging of the receivables, the current business environment and historical experience. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory valuation is determined using the first-in, first-out (FIFO) method. Customer orders are based upon forecasted quantities of product manufactured for shipment over defined periods. Raw material inventories are purchased to fulfill these customer requirements. Within these arrangements, customer demands for products frequently change, sometimes creating excess and obsolete inventories. The Company regularly reviews raw material inventories by customer for both excess and obsolete quantities. Wherever possible, the Company attempts to recover its full cost of excess and obsolete inventories from customers or, in some cases, through other markets. When it is determined that the Company's carrying cost of such excess and obsolete inventories cannot be recovered in full, a charge is taken against income for the difference between the carrying cost and the estimated realizable amount. We also reserve for inventory related to specific customers covered by lead-time assurance agreements when those customers are experiencing financial difficulties or reimbursement is not reasonably assured.

Property, Plant and Equipment

Property, plant and equipment are carried at cost and depreciated using straight-line methods over the expected useful lives of the assets. Repairs and maintenance costs are expensed as incurred.

Leases

Lease assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using the Company's incremental borrowing rate, unless the implicit rate is readily determinable. Our incremental borrowing rate represents the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. Lease assets also include any lease prepayments. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the consolidated statements of income. For further information, please refer to Footnote "Leases" of the "Notes to Consolidated Financial Statements."

Impairment of Long-lived Assets

The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value.

Accrued Warranty

An accrual is made for expected warranty costs, with the related expense recognized in cost of goods sold. Management reviews the adequacy of this accrual quarterly based on historical analyses and anticipated product returns.

Self-funded Insurance

The Company self-funds its domestic employee health plans. The Company contracts with a separate administrative service company to supervise and administer the programs and act as its representative. The Company reduces its risk under this self-funded platform by purchasing stop-loss insurance coverage for high dollar individual claims. In addition, if the aggregate annual claims amount to more than 125 percent of expected claims for the plan year this insurance will also pay those claims amounts exceeding that level.

The Company estimates its exposure for claims incurred but not paid at the end of each reporting period and uses historical claims data supplied by the Company's broker to estimate its self-funded insurance liability. This liability is subject to a total limitation that varies based on employee enrollment and factors that are established at each annual contract renewal. Actual claims experience may differ from the Company's estimates. Costs related to the administration of the plan and related claims are expensed as incurred.

Revenue Recognition

The first step in its process for revenue recognition is to identify the contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations. A contract can be written, oral, or implied. The Company generally enters into manufacturing service agreements ("MSA") with its customers that outlines the terms of the business relationship between the customer and the Company. This includes matters such as warranty,

indemnification, transfer of title and risk of loss, liability for excess and obsolete inventory, pricing, payment terms, etc. The Company will also bid on a program-by-program basis for customers in which an executed MSA may not be in place. In these instances, as well as when we have an MSA in place, we receive customer purchase orders for specific quantities and timing of products. As a result, the Company considers its contract with a customer to be the combination of the MSA and the purchase order. The transaction price is fixed and set forth in each purchase order. In the Company's normal course of business, there are no variable pricing components, or material amounts refunded to customers in the form of refunds or rebates.

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

Shipping and Handling Fees

The Company classifies costs associated with shipping and handling fees as a component of cost of goods sold. Customer billings related to shipping and handling fees are reported as revenue.

Research, Development and Engineering

Research, development and engineering expenses include unreimbursed contract manufacturing costs as well as design and engineering costs associated with the production of contract manufacturing programs. Research, development and engineering costs are expensed as incurred.

Income Taxes

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

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

Derivative Instruments and Hedging Activities

The Company has previously entered into foreign currency forward contracts and an interest rate swap which are accounted for as cash flow hedges in accordance with ASC 815, *Derivatives and Hedging*. The effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and is reclassified into earnings in the same period in which the underlying hedged transaction affects earnings. The derivative's effectiveness represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. As of July 1, 2023, the Company did not have any outstanding foreign currency forward contracts.

Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the combination of other potentially dilutive weighted average common shares and the weighted average number of common shares outstanding

during the period using the treasury stock method. The computation assumes the proceeds from the exercise of stock options were used to repurchase common shares at the average market price during the period. The computation of diluted earnings per common share does not assume conversion, exercise, or contingent issuance of common stock equivalent shares that would have an anti-dilutive effect on earnings per share.

Foreign Currency Transactions

The functional currency of the Company's subsidiaries in Mexico, China and Vietnam is the U.S. dollar. Realized foreign currency transaction gains and losses for local currency denominated assets and liabilities are included in cost of goods sold.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, current liabilities, and non-current operating lease liability are reflected on the balance sheets at July 1, 2023 and July 2, 2022, reasonably approximate their fair value. The Company had an outstanding balance on the line of credit of \$115.4 million as of July 1, 2023 and \$95.1 million as of July 2, 2022, with a carrying value that reasonably approximates the fair value. The Company had an outstanding balance on the term loan of \$3.4 million as of July 1, 2023 and \$4.6 million as of July 2, 2022, with a carrying value that reasonably approximates the fair value. The equipment term loans were \$6.5 million as of July 1, 2023 and \$3.3 million as of July 2, 2022, with a carrying value that reasonably approximates the fair value.

Share-based Compensation

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

Newly Adopted and Recent Accounting Pronouncements

In January 2021, FASB issued Accounting Standard Update (ASU) 2021-01, Reference Rate Reform (Topic 848) to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. The Company is currently assessing the effects on its consolidated financial statements, and it intends to adopt the guidance as it becomes effective.

In March of 2020, the FASB issued ASU 2020-03, Codification Improvements to Financial Instruments, which clarifies specific issues raised by stakeholders. Specifically, the ASU clarifies the following: 1) that all entities are required to provide the fair value option disclosures in ASC 825, Financial Instruments 2) clarifies that the portfolio exception in ASC 820, Fair Value Measurement, applies to nonfinancial items accounted for as derivatives under ASC 815, Derivatives and Hedging; 3) clarifies that for purposes of measuring expected credit losses on a net investment in a lease in accordance with ASC 326, Financial Instruments - Credit Losses, the lease term determined in accordance with ASC 842, Leases, should be used as the contractual term; 4) clarifies that when an entity regains control of financial assets sold, it should recognize an allowance for credit losses in accordance with ASC 326; and 5) aligns the disclosure requirements for debt securities in ASC 320, Investments - Debt Securities, with the corresponding requirements for depository and lending institutions in ASC 942, Financial Services - Depository and Lending. The amendments in the ASU have various effective dates and transition requirements which are dependent on timing of adoption of ASU 2016-13. The Company is currently assessing the effects on its consolidated financial statements, and it intends to adopt the guidance as they become effective.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and also issued subsequent amendments to the initial guidance: ASU 2018-19, ASU 2019-04 and ASU 2019-05, which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance is effective for the Company beginning in the first quarter of fiscal year 2024 with early adoption permitted. The Company is currently assessing the impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2024.

Fiscal Year

The Company operates on a 52/53 week fiscal year. Fiscal years end on the Saturday nearest June 30. As such, fiscal years 2023 and 2022 ended on July 1, 2023 and July 2, 2022, respectively. Fiscal years 2022 and 2023 were 52 week years.

2. INVENTORIES

Net inventory as of July 1, 2023 is \$137.9 million compared to \$155.7 million as of July 2, 2022. Substantially all of the Company's inventory balances are raw materials.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>Life</u>	<u>July 1, 2023</u>	<u>July 2, 2022</u>
	(in years)	(in thousands)	
Land	—	\$ 4,034	\$ 4,034
Buildings and improvements	3 to 30	26,459	25,841
Equipment	1 to 10	77,823	71,180
Furniture and fixtures	3 to 5	5,418	5,286
Total Property, Plant and Equipment		113,734	106,341
Accumulated depreciation		(84,864)	(80,329)
Property, Plant and Equipment, net		<u>\$ 28,870</u>	<u>\$ 26,012</u>

	<u>Fiscal Year Ended</u>	
	<u>July 1, 2023</u>	<u>July 2, 2022</u>
	(in thousands)	
Depreciation expense	\$ 4,700	\$ 4,940

4. LONG-TERM DEBT

On August 14, 2020, the Company entered into a loan agreement with Bank of America. The Loan Agreement replaces the Company's prior amended and restated credit agreement, as amended, with Wells Fargo Bank. The Loan Agreement provides for a five-year asset-based senior secured revolving credit facility of up to \$93 million, maturing on August 14, 2025.

On September 3, 2021, the Company entered into an amendment to the Company's current loan agreement with Bank of America. The amendment increases the Company's current credit facility of \$93 million to \$120 million, subject to the Company's borrowing base, maturing on September 3, 2026.

On August 26, 2022, the Company entered into a third amendment to the loan agreement with Bank of America. The amendment removed the cash flow leverage ratio covenant and increased the interest rate by 25 basis points.

In the third quarter of fiscal year 2023, the Company entered into equipment financing agreements with Ameris Bank dba Balboa Capital ("Balboa Capital") totaling \$4.4 million related to the Company's existing manufacturing equipment that bears an interest rate range of 6% - 8% and matures in the third quarter of fiscal 2029. Under these agreements, equal monthly payments of \$75,000 commenced in the third quarter of fiscal year 2023 and will continue through the maturity of the equipment financing facility in the third quarter of fiscal 2029. The Company had an outstanding balance \$4.1 million as of July 1, 2023.

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

As of July 2, 2022, the Company had an outstanding balance under the asset-based revolving credit facility of \$95.1 million, \$0.3 million in outstanding letters of credit and \$10.8 million available for future borrowings.

On August 14, 2020, the Company also entered into a \$5.0 million equipment financing facility with Bank of America relating to the Company's existing U.S. manufacturing equipment that bears interest at 4.85% and matures on August 14, 2025. Under this loan agreement, equal monthly payments of approximately \$94,000 commenced on September 14, 2020 and will continue through the maturity of the equipment financing facility on August 14, 2025. As of July 1, 2023, the Company had an outstanding balance of \$2.3 million. As of July 2, 2022, the Company had an outstanding balance of \$3.3 million.

Generally, the interest rate applicable to loans under the Bank of America loan agreement will be, at the Company's option: (i)(A) the base rate which is the highest of (a) the Prime Rate for such day, (b) the Federal Funds Rate for such day plus 0.50%, or (c) Term SOFR for a one month interest period as of such day, plus 1.00% (provided that in no event shall the base rate be less than zero), plus the applicable interest margin for base rate loans; and (B) SOFR rate for an applicable interest period, plus

the applicable interest margin for SOFR rate loans. Depending on average daily excess borrowing availability over applicable periods under the Credit Facility, applicable interest margins on: (x) base rate loans will be 1.50-2.00%; and (y) SOFR rate loans will be 2.50-3.00%, resetting on a quarterly basis beginning in early 2021. If there is an event of default under the loan agreement, all loans and other obligations will bear interest at a rate of an additional 2.00% on the last change rates above otherwise applicable interest rates. In addition to interest charges, the Company is required to pay a fee of 0.25% per annum on the unused portion of the Credit Facility, monthly in arrears.

On November 24, 2020, the Company entered into a \$6.0 million financing facility related to the Company's existing real estate located in Mexico that bears interest at 5.52% and matures on April 24, 2026. Under this loan agreement, equal monthly payments of \$100,000 commenced on May 24, 2021 and will continue through the maturity of the financing facility on April 24, 2026. The Company had an outstanding balance of \$3.4 million and \$4.6 million as of July 1, 2023 and July 2, 2022, respectively.

The interest rates on outstanding debt as of July 1, 2023 range from 4.85% - 8.22% compared to 4.50% - 5.52% as of July 2, 2022.

Debt maturities as of July 1, 2023 for the next five years are as follows (in thousands):

Fiscal Years Ending	Amount
2024	\$ 2,862
2025	2,959
2026	1,905
2027	116,166
2028 - Thereafter	\$ 1,367
Total debt	\$ 125,259
Unamortized debt issuance costs	591
Long-term debt, net of debt issuance costs	<u>\$ 124,668</u>

The Company must comply with certain financial covenants, including a fixed charge coverage ratio and a cash flow leverage ratio. The credit agreement requires the Company to grant certain inspection rights to Bank of America, limit or restrict the Company's cash management; limit or restrict the ability of the Company to incur additional liens, make acquisitions or investments, incur additional indebtedness, engage in mergers, consolidations, liquidations, dissolutions, or dispositions, pay dividends or other restricted payments, prepay certain indebtedness, engage in transactions with affiliates, and use proceeds. Management believes the Company was in compliance with all financial covenants as of July 1, 2023.

5. INCOME TAXES

Income tax benefit consists of the following:

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
	(in thousands)	
Current income tax provision (benefit):		
United States	\$ 998	\$ (2,179)
Foreign	2,134	2,012
	<u>3,132</u>	<u>(167)</u>
Deferred income tax provision (benefit):		
United States	(2,130)	443
Foreign	141	38
	<u>(1,989)</u>	<u>481</u>
Total income tax provision	<u>\$ 1,143</u>	<u>\$ 314</u>

The Company has gross tax credit carryforwards of approximately \$9.8 million at July 1, 2023 consisting of federal research and development (R&D) tax credits.

Management has reviewed all deferred tax assets for purposes of determining whether a valuation allowance may be required. A valuation allowance against deferred tax assets is required if it is more likely than not that some of the deferred tax assets will not be realized. Based upon the Company's profitability, forecasted income, and evaluation of all other positive and negative evidence, management determined that it is more likely than not that the deferred tax assets will be realized.

In the fourth quarter of fiscal year 2022, the Company, with its fiscal year 2021 federal income tax return, made automatic changes in tax accounting methods that created a fiscal year 2021 tax net operating loss. This loss was carried back to the tax years ending in 2016, 2017, and 2019, resulting in a tax benefit of \$0.6 million due to the higher federal income tax rate in effect in the years ending in 2016 and 2017.

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

The Company evaluated tax law changes and regulatory guidance issued through the quarter. Such changes and regulations include guidance under Sec. 162(m), Sec. 245A, Sec. 951A, foreign tax credits, and rules relating to consolidated NOL carryback claims, a new book minimum tax on certain large corporations, and an excise tax on corporate stock buybacks among other provisions. The Company evaluated the ongoing impact of these law and regulatory changes, which did not have a material impact on its provision for income taxes.

Subsequent to the end of the fiscal year ending June 27, 2020, the Treasury Department issued final regulations applicable to the Company's position with respect to the U.S. taxability of foreign earnings under the global intangible low taxed income (also known as "GILTI") regime and the deductibility of interest expense under IRC Section 163(j). These regulations did not have a material impact to the Company's income tax positions.

The 2017 Tax Cuts and Jobs Act (TCJA) mandated that, for tax years after fiscal year 2022, certain costs incurred for research and development (R&D) activities would no longer be allowed for immediate deduction but would be capitalized and amortized over 5 years (for R&D activities performed domestically) or 15 years (for R&D activities performed abroad). The Company began capitalizing and amortizing such costs in fiscal year 2023, resulting in an increase to income taxes payable that was largely offset by the utilization of R&D credit carryovers.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss (NOL) carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in years beginning in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company is taking advantage of this NOL carryback provision by carrying back the fiscal year 2021 NOL to the fiscal 2016 and 2017 years, as described above. In addition, the CARES Act contains modifications on the limitation of business interest for tax years beginning in 2019 and 2020. The modifications to Section 163(j) increase the allowable business interest deduction from 30% of adjusted taxable income to 50% of adjusted taxable income. This modification did not have a material impact on the fiscal year 2020 or fiscal year 2021 provisions for income taxes. Also, under the CARES Act, AMT credits not previously refunded for the tax year beginning in 2018 are refundable in the tax year beginning in 2019 rather than in years beginning in 2019-2021, and taxpayers can elect to claim 100% of the AMT credits in the first taxable year beginning in 2018 by applying for a tentative refund claim on or before December 31, 2020. The Company has made this election by applying for a tentative refund claim. The Company took advantage of the deferred payment payroll taxes provision, resulting in decreased deductible payroll tax payments, and increased taxable income, in fiscal years 2020 and 2021. Other aspects of the CARES Act did not have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

In future years, repatriations of cash will generally be tax-free in the U.S. However, withholding taxes in China may still apply to any such future repatriations. Management has not changed its indefinite investment assertions regarding to the portion of accumulated earnings and profits in China that may be repatriated in the future. Accordingly, management estimates that future repatriations of cash from China may result in approximately \$0.8 million of withholding tax. There would be no offsetting foreign tax credits in the U.S. and as such, this potential liability is a direct cost associated with actual repatriations. Withholding taxes will not apply to future repatriations from Mexico or Vietnam.

The Company expects to repatriate a portion of its foreign earnings based on increased net sales growth driving additional capital requirements domestically, cash requirements for potential acquisitions and to implement certain tax strategies. The Company expects to repatriate approximately \$7.6 million from China, in the future. All other unremitted foreign earnings are expected to remain permanently reinvested for planned fixed assets purchases and improvements in foreign locations.

The Company's effective tax rate differs from the federal tax rate as follows:

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
	(in thousands)	
Federal income tax provision at statutory rates	\$ 1,322	\$ 775
State income taxes, net of federal tax effect	(25)	86
Foreign tax rate differences	137	336
Federal rate differences applied to net operating loss carryback	—	(593)
Effect of income tax credits	(1,020)	(920)
Previously unrecognized tax benefits	(75)	146
Inflation adjustments	118	178
Tax penalties & interest	—	179
Global Intangible Low-Taxed Income (GILTI) tax	33	59
Provision to return reconciliation	52	(91)
Equity compensation shortfall	73	104
Foreign Exchange Gains/Losses Unrealized for Tax Purposes	277	23
Other	251	32
Income tax provision (benefit)	<u>\$ 1,143</u>	<u>\$ 314</u>

Prior year presentation of certain items in the above table has been adjusted to reflect current year classification.

The domestic and foreign components of income before income taxes were:

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
	(in thousands)	
Domestic	\$ (1,086)	\$ (2,890)
Foreign	7,386	6,581
Income before income taxes	<u>\$ 6,300</u>	<u>\$ 3,691</u>

Deferred income tax assets and liabilities consist of the following at:

	July 1, 2023	July 2, 2022
	(in thousands)	
Deferred tax assets:		
Net operating loss	\$ —	\$ 486
Tax credit carryforwards, net	6,812	7,990
Inventory	267	247
Identifiable intangibles	308	370
Accruals	2,421	2,406
PPE	1,328	1,200
ASC 606 deferred costs	4,802	4,216
Lease liabilities	3,775	3,671
Interest expense deduction carryforward	977	580
Research and development expenses	3,860	—
Other	271	465
Deferred income tax assets	<u>\$ 24,821</u>	<u>\$ 21,631</u>
Deferred tax liabilities:		
Accrued withholding tax - unremitted earnings	(754)	(754)
Right-of-use assets	(3,857)	(3,663)
Tax capital lease liabilities	(2,832)	(2,385)
ASC 606 accelerated revenue	(4,599)	(3,736)
Other	(799)	(1,102)
Deferred income tax liabilities	<u>\$ (12,841)</u>	<u>\$ (11,640)</u>
Net deferred income tax assets	<u>\$ 11,980</u>	<u>\$ 9,991</u>
Balance sheet caption reported in:		
Long-term deferred income tax asset	\$ 12,254	\$ 10,055
Long-term deferred income tax liability	(274)	(64)
Net deferred income tax asset	<u>\$ 11,980</u>	<u>\$ 9,991</u>

Uncertain Tax Positions:

The Company has R&D tax credits that approximate \$9.8 million that have 20-year carryforwards before expiring. The Company's R&D tax credits expire in various fiscal years from 2032 to 2043.

As of July 1, 2023, the Company had unrecognized tax benefits of \$3.0 million related to its gross R&D tax credits. The unrecognized tax benefits relate to certain R&D tax credits generated from 2003 to 2023.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Fiscal Year Ended	
	July 1, 2023	July 2, 2022
	(in thousands)	
Beginning Balance	\$ 2,998	\$ 4,863
Additions based on tax positions related to the current year	120	286
Adjustment to prior year tax positions & amended tax returns	(15)	(2,296)
Lapse of statute of limitations	(75)	145
Ending Balance	<u>\$ 3,028</u>	<u>\$ 2,998</u>

The \$3.0 million of unrecognized tax benefits at the end of fiscal year 2023, if recognized, would reduce the effective tax rate. Management does not anticipate any material changes to this amount during the next 12 months.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in its income tax provision. The Company has not recognized any interest or penalties in the fiscal years presented in these financial statements, except for

\$0.2 million in fiscal year 2022. The Company is subject to income tax in the U.S. federal jurisdiction, various state jurisdictions, Mexico, China and Vietnam. Certain years remain subject to examination but there are currently no ongoing exams in any taxing jurisdiction.

6. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing net income (the numerator) by the weighted-average number of common shares outstanding (the denominator) during the period. Diluted EPS is computed by including both the weighted-average number of shares outstanding and any dilutive common share equivalents in the denominator. The following table presents a reconciliation of the denominator and the number of antidilutive common share awards that were not included in the diluted earnings per share calculation. These antidilutive securities occur when equity awards outstanding have an option price greater than the average market price for the period:

	Fiscal Year Ended	
	(in thousands, except per share information)	
	July 1, 2023	July 2, 2022
Net income	\$ 5,157	\$ 3,377
Weighted average shares outstanding– basic	10,762	10,762
Effect of dilutive common stock awards	176	301
Weighted average shares outstanding – diluted	10,938	11,063
Net income per share – basic	\$ 0.48	\$ 0.31
Net income per share – diluted	\$ 0.47	\$ 0.31
Antidilutive SARs not included in diluted earnings per share	376	619

7. STOCK OPTION AND BENEFIT PLANS

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

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

On July 29, 2022, the Company granted 145,000 SARs under the 2010 Incentive Plan to certain key employees and outside directors at a strike price of \$5.10 and a grant date fair value of \$2.09. As of July 1, 2023, 140,000 remain outstanding. The grant date fair value for the awards granted during fiscal year 2023, were estimated using the Black Scholes option valuation method with the following weighted average assumptions as of July 29, 2022:

	Fiscal Year 2023
	July 29, 2022
Expected dividend yield	—%
Risk – free interest rate	3.01%
Expected volatility	48.56%
Expected life	4.00

On August 9, 2021, the Company granted 165,000 SARs under the 2010 Incentive Plan to certain key employees and outside directors at a strike price of \$7.17 and a grant date fair value of \$2.73. As of July 1, 2023, 140,000 remain outstanding. The grant date fair value for the awards granted during fiscal year 2022, were estimated using the Black Scholes option valuation method with the following weighted average assumptions as of August 9, 2021:

	Fiscal Year 2022
	August 9, 2021
Expected dividend yield	—%
Risk – free interest rate	0.62%
Expected volatility	48.58%
Expected life	4.00

On July 23, 2020, the Company granted 155,000 SARs under the 2010 Incentive Plan to certain key employees and outside directors at a strike price of \$6.94 and a grant date fair value of \$2.32. As of July 1, 2023, 130,000 remain outstanding. The grant date fair value for the awards granted during fiscal year 2021, were estimated using the Black Scholes option valuation method with the following weighted average assumptions as of July 23, 2020:

	Fiscal Year 2021
	July 23, 2020
Expected dividend yield	—%
Risk – free interest rate	0.17%
Expected volatility	42.85%
Expected life	4.00

Share-based compensation expense is recognized only for those awards that are expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. This forfeiture rate will be revised, if necessary, in subsequent periods if actual forfeitures differ from the amount estimated. Share-based compensation expense for fiscal years ended July 1, 2023 and July 2, 2022 was \$0.3 million and \$0.3 million, respectively.

The Black-Scholes option valuation model is used by the Company for estimating the fair value of SARs. Option valuation models require the input of highly subjective assumptions, particularly for the expected term and expected stock price volatility. Changes in these assumptions can materially affect the fair value estimates.

There were no SARs exercised during fiscal year 2023 and fiscal year 2022.

As of July 1, 2023, total unrecognized compensation expense related to nonvested share-based compensation arrangements was approximately \$0.3 million. This expense is expected to be recognized over a weighted-average period of 1.90 years.

The following table summarizes the Company's Options and SARs activity for all plans from July 3, 2022 through July 1, 2023:

	SARs Available For Grant	SARs Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Balances, July 3, 2021	688,084	791,250	\$ —	\$ 7.15	1.9
Shares authorized	—			\$ —	
SARs granted	(165,000)	165,000		\$ 7.17	
SARs forfeited	197,500	(197,500)		\$ 8.17	
SARs exercised					
Balances, July 2, 2022	720,584	758,750	\$ —	\$ 6.89	2.1
Shares authorized	—			—	
SARs granted	(145,000)	145,000		5.10	
SARs forfeited	277,500	(277,500)		7.03	
SARs exercised	—	—	—	—	
Balances, July 1, 2023	853,084	626,250	\$ —	\$ 6.41	2.2
Exercisable at July 1, 2023		226,250	\$ —	\$ 6.45	0.6

Additional information regarding SARs outstanding and exercisable as of July 1, 2023, is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Avg. Remaining Contractual Life (yrs.)	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Exercise Price
\$4.93 – \$7.43	525,000	2.1	\$ 6.06	120,000	\$ 4.93
\$7.44 – \$9.44	101,250	14.6	8.17	106,250	8.17
\$4.93 to \$9.44	626,250	2.2	\$ 6.41	226,250	\$ 6.45

The Company has defined contribution plans available to U.S. employees who have attained age 21. Company contributions to the plans were approximately \$1.1 million and \$0.9 million during fiscal years 2023 and 2022, respectively.

8. COMMITMENTS AND CONTINGENCIES

Litigation and Other Matters

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

Warranties

The Company provides warranties on certain product sales. Allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product return rates and expected costs to repair or to replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from management's estimates, adjustments to recognize additional cost of sales may be required in future periods. As of July 1, 2023 and July 2, 2022, the reserve for warranty costs was approximately \$29,000 and \$31,000, respectively.

Leases

Please refer to Footnote "Leases" of the "Notes to Consolidated Financial Statements" for information regarding lease commitments.

Internal Investigation

During fiscal year 2021, the Company's Audit Committee completed an internal investigation arising from a notification from an employee regarding certain alleged accounting irregularities. In January 2021, the Company determined that improper accounting resulted in an understatement of cost of goods sold and an overstatement of inventories. Subsequent to the matter identified in January 2021, additional inventory accounting errors unrelated to the investigation were also identified by management. The investigation did not result in a restatement of our previously filed financial statements. The Company is cooperating with the Securities and Exchange Commission's (the "SEC") inquiries related to the internal investigation. The Company cannot currently form an estimate of any possible loss or range of loss, including any potential monetary penalties; or other remedies potentially imposed by the SEC.

Indemnification Rights

Under the Company's bylaws, the Company's directors and officers have certain rights to indemnification by the Company against certain liabilities that may arise by reason of their status or service as directors or officers. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and officers and former directors in certain circumstances.

9. DERIVATIVE FINANCIAL INSTRUMENTS

As of July 1, 2023, the Company did not have any outstanding foreign currency forward contracts. During the fiscal year ended July 2, 2022, the Company entered into \$13.9 million of foreign currency forward contracts and settled \$24.6 million of such contracts.

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

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

The following table summarizes the gain (loss) on derivative instruments, net of tax, on the Consolidated Statements of Income for the fiscal year 2023 (in thousands):

Derivatives Designated as Hedging Instruments	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	AOCI Balance as of July 2, 2022	Effective Portion Recorded In AOCI	Effective Portion Reclassified From AOCI Into Income	AOCI Balance as of July 1, 2023
Forward contracts	Cost of sales	\$ (79)	\$ —	\$ 79	\$ —
Interest rate swap	Interest expense	(346)	—	249	(97)
Total		\$ (425)	\$ —	\$ 328	\$ (97)

The following table summarizes the gain (loss) on derivative instruments, net of tax, on the Consolidated Statements of Income for the fiscal year 2022 (in thousands):

Derivatives Designated as Hedging Instruments	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	AOCI Balance as of July 3, 2021	Effective Portion Recorded In AOCI	Effective Portion Reclassified From AOCI Into Income	AOCI Balance as of July 2, 2022
Forward contracts	Cost of sales	\$ 2,721	\$ 950	\$ (3,750)	\$ (79)
Interest rate swap	Interest expense	(649)	—	303	(346)
Total		\$ 2,072	\$ 950	\$ (3,447)	\$ (425)

As of July 1, 2023, the Company does not have any foreign exchange contracts with credit-risk-related contingent features. The Company is subject to the risk of fluctuating interest rates from our line of credit and foreign currency risk resulting from our China operations. The Company does not currently manage these risk exposures by using derivative instruments.

10. FAIR VALUE MEASUREMENTS

The Company has adopted ASC 820, *Fair Value Measurements*, which defines fair value, establishes a framework for assets and liabilities being measured and reported at fair value and expands disclosures about fair value measurements. There are three levels of fair value hierarchy inputs used to value assets and liabilities which include: Level 1 – inputs are quoted market prices for identical assets or liabilities; Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 – inputs are unobservable inputs for the asset or liability. There have been no changes in the fair value methodologies used at July 1, 2023 and July 2, 2022.

The carrying values of cash and cash equivalents, accounts receivable, contract assets, and current liabilities are reflected on the balance sheets at July 1, 2023 and July 2, 2022, reasonably approximate their fair value.

The Company's long-term debt, which is measured at amortized cost, primarily consists of an asset-based revolving credit facility, lease liability, and equipment loans. These borrowings bear interest at SOFR plus 2.5% per the loan agreement. Each of these rates is a variable floating rate dependent upon current market conditions and the Company's current credit risk as discussed in Footnote "Long-Term Debt" of the "Notes to Consolidated Financial Statements."

As a result of the determinable market rates for our asset-based revolving credit facility and equipment loans, they are classified within Level 2 of the fair value hierarchy. Further, the carrying value of each of these instruments reasonably approximates their fair value as of July 1, 2023 and July 2, 2022.

11. ENTERPRISE-WIDE DISCLOSURES

Operating segments are defined in ASC Topic 280, *Segment Reporting* as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. As of July 1, 2023, the Company operates and internally manages a single operating segment, Electronics Manufacturing Services as this is the only discrete financial information that is regularly reviewed by the chief operating decision maker. This segment provides integrated electronic and mechanical engineering, assembly, sourcing and procurement, logistics, and new product testing for our customers.

Products and Services

Of the revenues for the years ended July 1, 2023 and July 2, 2022, contract manufacturing sales and services were \$588.1 million and \$531.8 million, respectively.

Geographic Areas

Net sales and long-lived assets (property, plant, and equipment) by geographic area for the years ended and as of July 1, 2023 and July 2, 2022 are summarized in the following table. Net sales set forth below are based on the shipping destination. Long-lived assets information is based on the physical location of the asset and includes property, plant and equipment, net, and operating lease right-of-use assets, net.

	Fiscal Year Ended	
	(in thousands)	
	2023	2022
Geographic net sales:		
Domestic (U.S.)	\$ 502,274	\$ 438,018
Foreign	\$ 85,861	\$ 93,797
Total	<u>\$ 588,135</u>	<u>\$ 531,815</u>
Long-lived assets:		
United States	\$ 21,799	\$ 14,440
Mexico	\$ 18,203	22,473
Vietnam	\$ 4,547	5,228
China	\$ 523	601
Total	<u>\$ 45,072</u>	<u>\$ 42,742</u>

Percentage of net sales made to customers located in the following countries:

	Fiscal Year Ended	
	2023	2022
United States	85%	82%
China	14	16
Other foreign countries ^(a)	1	2
Canada	—	—
Total	<u>100%</u>	<u>100%</u>

(a) No other individual foreign country accounted for 10% or more of the foreign sales in fiscal years 2023 or 2022.

Significant Customers

The percentage of net sales to and trade accounts receivables from significant customers were as follows:

	Percentage of Net Sales		Percentage of Trade Accounts Receivable	
	Fiscal Year		Fiscal Year	
	2023	2022	2023	2022
Customer A	12%	12%	16%	13%

12. REVENUE

Revenue Recognition

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

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

The Company's typical payment terms are 30 to 45 days and its sales arrangements do not contain any significant financing component for its customers.

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

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

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

During fiscal 2023 and 2022, no revenues were recognized from performance obligations satisfied or partially satisfied in previous periods.

Contract Balances

A contract asset is recognized when the Company has recognized revenue, but has not issued an invoice for payment. Contract assets are classified separately on the condensed consolidated balance sheet and transferred to receivables when the right to payment becomes unconditional.

The following table summarizes the activity in the Company's contract assets during the twelve months ended July 1, 2023 (in thousands):

	Contract Assets
Beginning balance, July 2, 2022	\$ 21,974
Revenue recognized	573,444
Amounts collected or invoiced	(565,493)
Ending balance, July 1, 2023	<u>\$ 29,925</u>

The following table summarizes the activity in the Company's contract assets during the twelve months ended July 2, 2022 (in thousands):

	Contract Assets
Beginning balance, July 3, 2021	24,781
Revenue recognized	515,831
Amounts collected or invoiced	(518,638)
Ending balance, July 2, 2022	<u>\$ 21,974</u>

Disaggregation of Revenue

The following table presents the Company's revenue disaggregated for the twelve months ended July 1, 2023 and the twelve months ended July 2, 2022 (in thousands):

Recognition	Revenue	
	July 1, 2023	July 2, 2022
Over-Time	\$ 573,444	\$ 515,831
Point-in-Time	14,691	15,984
Total	<u>588,135</u>	<u>\$ 531,815</u>

Revenues and associated costs from engineering design, development services and tooling, which are performed under contract of short term durations, are recognized over time as the services are performed. Revenue from engineering design, development services and tooling represented approximately 6.6% and 9.6% of total revenue in fiscal year 2023 and 2022, respectively.

13. LEASES

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

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

For operating leases, management assumed a discount rate of 4%. The weighted average discount rate is disclosed in the tables below.

The components of lease cost were as follows as of July 1, 2023 and July 2, 2022 (in thousands):

Lease cost	Classification	Year Ended	Year Ended
		July 1, 2023	July 2, 2022
Operating lease cost	Cost of sales	\$ 4,519	\$ 6,442
Operating lease cost	Selling, general and administrative expenses	737	929
Financing lease cost	Cost of sales	\$ 3,891	\$ 2,054
Financing lease cost	Selling, general and administrative expenses	\$ 161	\$ 64
Total lease cost		<u>\$ 9,308</u>	<u>\$ 9,489</u>
Fixed lease cost		\$ 8,171	\$ 7,941
Short-term lease cost		\$ 1,137	\$ 1,548
Total lease cost		<u>\$ 9,308</u>	<u>\$ 9,489</u>

Amounts reported in the Consolidated Balance Sheet as of July 1, 2023 and July 2, 2022 were (in thousands, except weighted average lease term and discount rate):

	July 1, 2023	July 2, 2022
<i>Operating Leases:</i>		
Operating lease right of use assets	\$ 16,202	\$ 16,731
Operating lease liabilities ⁽¹⁾	16,202	16,731
Weighted-average remaining lease term (in years)		
Operating leases	4.55	5.28
Weighted-average discount rate		
Operating leases	4.00 %	4.00 %
<i>Financing Leases ⁽²⁾:</i>		
Financing lease right of use assets	\$ 9,718	\$ 12,464
Financing lease liabilities	8,278	11,211
Weighted-average remaining lease term (in years)		
Financing leases	1.89	2.56
Weighted-average discount rate		
Financing leases	9.96 %	8.82 %

(1) For fiscal year 2023 and 2022, the current portion of the total operating lease liabilities is classified under Other Current Liabilities.

(2) The total finance lease right of use assets of \$9.7 million is classified under Other Long-term Assets. The current portion of the total finance lease liabilities of \$4.7 million is classified under Current portion of debt, net, resulting in \$3.6 million classified in Other Long-term Liabilities section of the condensed consolidated balance sheet.

Other information related to leases was as follows (in thousands):

	July 1, 2023	July 2, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	5,714	4,261
Financing cash flows used in financing leases	4,291	2,331

Future lease payments under non-cancellable leases as of July 1, 2023 are as follows (in thousands):

Fiscal Years Ending	Operating Leases	Finance Leases
2024	\$ 5,134	\$ 4,711
2025	3,987	3,290
2026	3,365	670
2027	2,464	71
2028	1,551	—
Thereafter	1,689	—
Total undiscounted lease payments	<u>18,190</u>	<u>8,742</u>
Less: present value discount	1,988	464
Total lease liabilities	<u>\$ 16,202</u>	<u>\$ 8,278</u>

Item 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

Item 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(f). Based on our assessment, we believe that as of July 1, 2023, the Company’s disclosure controls and procedures are effective based on that criteria.

Management’s Report on Internal Control over Financial Reporting

Our management has the responsibility to establish and maintain adequate internal controls over our financial reporting, as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal controls are designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our external financial statements in accordance with generally accepted accounting principles (GAAP).

Due to inherent limitations of any internal control system, management acknowledges that there are limitations as to the effectiveness of internal controls over financial reporting and therefore recognize that only reasonable assurance can be gained from any internal control system. Accordingly, our internal control system may not detect or prevent material misstatements in our financial statements and 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.

Under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, we have performed an assessment of the effectiveness of our internal controls over financial reporting as of July 1, 2023. This assessment was based on the criteria established in Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that as of July 1, 2023, the Company’s internal control over financial reporting is effective based on that criteria.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal controls over financial reporting during our fourth fiscal quarter ended July 1, 2023 that have materially affected, or are reasonable likely to materially affect, the Company’s internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)).

Item 9B: OTHER INFORMATION

None

Item 9C: DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III**Item 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Directors of the Registrant**

Information on the nominees for election as Directors of the Company is incorporated herein by reference from the Company's definitive proxy statement for the 2023 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2023 fiscal year (the "2023 Proxy Statement").

Executive Officers of the Registrant

This information is included in a separate item captioned "Executive Officers of the Registrant" in Item 1 of Part 1 of this Annual Report on Form 10-K pursuant to Instruction G(3) of Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K and is incorporated herein by reference.

Compliance with Section 16(a) of the Exchange Act:

Information under the caption "Delinquent Section 16(a) Reports" in the Company's 2023 Proxy Statement is incorporated herein by this reference.

Code of Conduct

The Board of Directors has adopted a written Code of Conduct which applies to its directors and employees, including its executive officers. The Code of Conduct is available on the Company's website at www.keytronic.com. The Company intends to disclose on its website any amendments to or waivers of the Code of Conduct.

Item 11: EXECUTIVE COMPENSATION

Information appearing under the caption "Executive Compensation" in the Company's 2023 Proxy Statement is incorporated herein by this reference.

Item 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the aggregate information for the Company's equity compensation plans in effect as of July 1, 2023.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders ⁽¹⁾	626,250	\$ 6.41	853,084
Equity compensation plans not approved by security holders	—	\$ —	—
Total	626,250	\$ 6.41	853,084

(1) Included are the 1,200,000 shares subject to the 2010 Plan, the issuance of which were approved by the shareholders at the 2010 Annual Meeting. During the 2015 Annual Meeting, an additional 1,000,000 shares were approved. As a result of the shareholder approval, the Company made the decision to amend the cash-settled SARs granted during fiscal year 2010 to stock-settled SARs effective October 21, 2011.

Information under the caption "Beneficial Ownership of Securities" in the Company's 2023 Proxy Statement is incorporated herein by this reference.

Item 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information appearing under the caption “Related Person Transactions” and “Directors’ Independence” in the Company’s 2023 Proxy Statement is incorporated herein by this reference.

Item 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our independent registered public accounting firm is Moss Adams LLP, Seattle, Washington, Auditor Firm ID: 659.

Information appearing under the caption “Principal Accountant Fees and Services” in the Company’s 2023 Proxy Statement is incorporated herein by this reference.

PART IV

Item 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. FINANCIAL STATEMENTS

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<u>FINANCIAL STATEMENTS</u>	
Report of Independent Registered Public Accounting Firm (Moss Adams, LLP)	26
Consolidated Balance Sheets	28
Consolidated Statements of Income	29
Consolidated Statements of Comprehensive Income	30
Consolidated Statements of Cash Flows	31
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Notes to Consolidated Financial Statements	35

3. EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation
3.2	Bylaws, as amended
4.1	Description of the Company's securities
10.1*	2010 Incentive Plan, incorporated by reference to Exhibit 10.36 to the Company's Form 10-K for the year ended July 3, 2010
10.2*	Description of Employment Contract of Craig D. Gates, incorporated by reference to the Company's 1998 Proxy Statement, pages 10 and 11
10.3*	Addenda to Employment Contract of Craig D. Gates, incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended January 1, 2000
10.4*	Addenda to Employment Contract of Craig D. Gates, incorporated by reference to Exhibit 10.2 to the Company's Form 10-K for the year ended June 29, 2002
10.5*	Amendment to Employment Contract of Craig D. Gates, dated August 23, 2011 incorporated by reference to Exhibit 10.40 to the Company's Form 10-K for the year ended July 2, 2011
10.6*	Amendment to Employment Contract of Craig D. Gates, dated May 10, 2012, incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2012
10.7*	Summary of Incentive Compensation Plan Performance Goals and Target Payments for Fiscal Year 2019 and Fiscal Years 2019 – 2021 Long Term Incentive Plan Performance Measures and Awards incorporated by reference to the Company's Form 8-K filed August 2, 2018
10.8*	Summary of Incentive Compensation Plan Performance Goals and Target Payments for Fiscal Year 2020 and Fiscal Years 2020 – 2022 Long Term Incentive Plan Performance Measures and Awards incorporated by reference to the Company's Form 8-K filed July 30, 2019
10.9*	Summary of Incentive Compensation Plan Performance Goals and Target Payments for Fiscal Year 2021 and Fiscal Years 2021 – 2023 Long Term Incentive Plan Performance Measures and Awards incorporated by reference to the Company's Form 8-K filed July 27, 2020
10.10*	Summary of Incentive Compensation Plan Performance Goals and Target Payments for Fiscal Year 2022 and Fiscal Years 2022 – 2024 Long Term Incentive Plan Performance Measures and Awards incorporated by reference to the Company's Form 8-K filed August 13, 2021
10.11*	Summary of Incentive Compensation Plan Performance Goals and Target Payments for Fiscal Year 2023 and Fiscal Years 2023 – 2025 Long Term Incentive Plan Performance Measures and Awards incorporated by reference to the Company's Form 8-K filed August 4, 2022
10.12*	Summary of Incentive Compensation Plan Performance Goals and Target Payments for Fiscal Year 2024 and Fiscal Years 2024 – 2026 Long Term Incentive Plan Performance Measures and Awards incorporated by reference to the Company's Form 8-K filed August 17, 2023

10.13	Announcement that the Company has signed a letter of intent to lease a new facility in Da Nang, Vietnam
10.14	Stock Purchase Agreement, dated September 3, 2014, by and among the Company, CDR Manufacturing Inc. and the sellers signatory thereto, incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on September 9, 2014
10.15	Loan and Security Agreement, dated August 14, 2020, among the Company, Bank of America, N.A, and certain other parties, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed August 17, 2020
10.16	First Amendment to Loan and Security Agreement, dated November 10, 2020, among the Company, Bank of America, N.A, and certain other parties, submitted herewith
10.17	Second Amendment to Loan and Security Agreement, dated September 3, 2021, among the Company, Bank of America, N.A, and certain other parties, incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed September 10, 2021
10.18	Third Amendment to Loan and Security Agreement, dated August 26, 2022, among the Company, Bank of America, N.A, and certain other parties, incorporated by reference to Exhibit 10.2, submitted herewith
21.1	Subsidiaries of Registrant, submitted herewith
23.1	Consent of Independent Registered Public Accounting Firm - Moss Adams LLP, submitted herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer, submitted herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer, submitted herewith
32.1	Section 1350 Certification of Chief Executive Officer, submitted herewith
32.2	Section 1350 Certification of Chief Financial Officer, submitted herewith
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document **
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.INS, 101.SCH, 101.CAL, 101.DEF, 101.LAB and 101.PRE)

* Management contract or compensatory plan or arrangement

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities and Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.

Item 16: FORM 10-K SUMMARY

None

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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.

Dated: September 26, 2023

KEY TRONIC CORPORATION

By: /s/ Craig D. Gates
Craig D. Gates, President and Chief Executive Officer
(Principal Executive Officer)

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

<u>/s/ Craig D. Gates</u> Craig D. Gates Director and President and Chief Executive Officer (Principal Executive Officer)	<u>September 26, 2023</u> Date
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<u>/s/ Brett R. Larsen</u> Brett R. Larsen Executive Vice President of Administration, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	<u>September 26, 2023</u> Date
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<u>/s/ Ronald F. Klawitter</u> Ronald F. Klawitter, Director	<u>September 26, 2023</u> Date
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<u>/s/ James R. Bean</u> James R. Bean, Director	<u>September 26, 2023</u> Date
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<u>/s/ Subodh K. Kulkarni</u> Subodh K. Kulkarni, Director	<u>September 26, 2023</u> Date
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<u>/s/ Yacov A. Shamash</u> Yacov A. Shamash, Director	<u>September 26, 2023</u> Date
---	-----------------------------------

<u>/s/ Patrick Sweeney</u> Patrick Sweeney, Director and Chairman of the Board	<u>September 26, 2023</u> Date
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CORPORATE DIRECTORY + SHAREHOLDER INFORMATION

DIRECTORS

Craig D. Gates

President and Chief Executive Officer
of Key Tronic Corporation

James R. Bean

Former General Manager Radar
Business Unit Sensata Technologies Inc.

Ronald F. Klawitter

Former Executive Vice President
of Administration, Chief Financial Officer
and Treasurer of Key Tronic Corporation

Subodh K. Kulkarni

President and Chief Executive Officer
of Rigetti Computing, Inc.

Yacov A. Shamash

Professor of Electrical and Computer
Engineering at Stony Brook University

Patrick Sweeney

Chairman of the Board
Former President and Chief Executive
Officer of Hadco Corporation

OFFICERS AND MANAGEMENT

Craig D. Gates

President and
Chief Executive Officer

Thomas E. Despres

Sr. Vice President of
Southwest Operations

Brett R. Larsen

Executive Vice President
of Administration,
Chief Financial Officer
and Treasurer

David H. Knaggs

Executive Vice President of
Quality and Information
Systems

Philip S. Hochberg

Executive Vice President
of Business Development

Chad T. Orebaugh

Executive Vice President of
Engineering

Duane D. Mackleit

Executive Vice President
of Operations

Anthony G. Voorhees

Vice President of Finance and
Controller

Mark R. Courtney

Vice President of Supply Chain

keytronic.com

CORPORATE OFFICE

4424 N. Sullivan Road
Spokane Valley, WA 99216
509-928-8000

TRANSFER AGENT & REGISTRAR

For shareholder correspondence:

REGULAR MAIL:

Computershare
P.O. Box 43078
Providence, RI 02940-3078

www.computershare.com/investor

OVERNIGHT:

Overnight/certified/registered delivery:
Computershare
150 Royall Street, Suite 101
Canton, MA 02021

SECURITIES

Key Tronic Corporation's common stock is traded on the NASDAQ Stock Market and is listed on the NASDAQ Global Select Market under the symbol KTCC. The closing price of the stock on July 1, 2023, was \$5.67. As of July 1, 2023, the company had 569 shareholders of record.

The company's current credit agreement contains a covenant which prohibits the declaration or payment of dividends. The company has never paid a cash dividend and does not anticipate payment of dividends on its common stock in the foreseeable future.

INVESTOR RELATIONS & 10-K REPORT

A copy of the Company's report on SEC Form 10-K and other investor information may be obtained by contacting:

Key Tronic Corporation
509-927-5500
investorrelations@keytronic.com





CORPORATE OFFICE
4424 N SULLIVAN RD.
SPOKANE VALLEY, WA 99216
509-928-8000

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