

2024



ANNUAL REPORT



“

We are committed to continually investing in and developing our people to create a culture of innovation that will benefit both the company and our customers, and differentiate us from our competitors. Our people are our most valuable asset.

”

DEAR SHAREHOLDERS

Fiscal 2024 got off to a promising start. During the first half of the year, our revenue grew by 11% year-over-year, driven by increased production in our US and Vietnam-based facilities. Despite the strong topline growth, our margins and profitability were constrained by increased labor costs, unfavorable foreign currency exchange rates in Mexico and higher interest rates.

During the second half of fiscal 2024, we faced major disruptions to our business, including severe winter weather events that took our facilities in Mississippi and Arkansas offline for approximately two weeks and a cybersecurity event that interrupted our operations and corporate functions in Mexico and U.S. sites. Together, these events delayed the fulfillment of more than \$20 million in revenue.

During the year, we took the necessary steps to reduce our workforce in Mexico, which we anticipate will save us more than \$10 million annually. We expect Mexico-based production to recover due to recently won programs and we do not anticipate needing to increase our headcount in coming periods, reflecting significant improvements to our operating efficiencies. Based largely on these efforts, we anticipate margin improvement in the coming quarters.

During the year, we continued to see the favorable trend of contract manufacturing returning to North America. We expanded our customer base and won new programs involving a wide range of industries. Global logistics problems and geopolitical tensions continue to drive OEMs to examine their traditional outsourcing strategies. Over time, the decision to on-shore or near shore production is becoming more widely accepted as a smart long term strategy.

For a growing number of customers, the decreasing cost differential between the US and Mexico means they increasingly consider our US sites for their high levels of flexibility, engineering support, and ease of communications. During the year, revenue from our US production facilities increased approximately 3% and now represents approximately 32% of our total revenue in the last quarter of fiscal 2024.

We have reconfigured our Mexico sites for customers seeking a lower cost, high quality solution. The Vietnam facility will also play a major role in our future growth, and our procurement group in Shanghai remains important for managing our supply chain. We believe the combination of our global footprint and our expansive design capabilities is proving to be extremely effective in capturing new business.

While an unfortunate combination of factors temporarily disrupted our growth and profitability in fiscal 2024, we move into fiscal 2025 with a strong pipeline of potential new business. We will have a renewed emphasis on employee development and innovation, and we're already seeing significant improvements in our operating efficiencies and a favorable weakening of the Mexican Peso. We remain very encouraged by our progress and potential for profitable growth over the long term.

I am very proud of what our people achieved in the past year despite numerous external challenges to our business, and I am excited for the future with our renewed emphasis on employee development, innovation and increased manufacturing efficiency. I am honored to be leading a tremendous group of dedicated people focused on operational growth and customer satisfaction. I also want to thank our shareholders for their continued support.

Sincerely,

Brett Larsen
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 JUNE 29, 2024

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 ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under 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 30, 2023, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$44.0 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 October 11, 2024.

Documents Incorporated by Reference:

Certain information is incorporated into Part III of this report by reference to the Proxy Statement for the registrant’s 2024 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
2024 FORM 10-K

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EXPLANATORY NOTE

In connection with the preparation of this Annual Report on Form 10-K, Key Tronic Corporation (the “Company”) concluded that cost recovery of material price variances was not being consistently recorded across its facilities. Material price variance occurs when the price the Company pays for materials exceeds the price quoted to customers, and the Company typically recovers the excess cost from customers through a sales price adjustment. Per Company policy, this cost recovery should be recorded as revenue when inventory enters the production process, however, certain of the Company’s facilities were recording the cost recovery as a reduction to cost of goods sold. These errors resulted in an understatement of both revenue and cost of goods sold in fiscal 2024 and prior periods.

On October 9, 2024, the Company’s Audit Committee of the Board of Directors, after discussion with Company management and the Company’s independent registered public accounting firm, concluded that the following previously issued financial statements of the Company should no longer be relied upon because of the errors related to the recording of cost recovery: (1) the consolidated financial statements as of and for the years ended July 1, 2023 and July 2, 2022 included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 1, 2023 and (2) the unaudited consolidated statements of operations for the quarters ended March 30, 2024, December 30, 2023, September 30, 2023, April 1, 2023, December 31, 2022, October 1, 2022, April 2, 2022, January 1, 2022, and October 2, 2021 included in the Company’s Quarterly Reports on Form 10-Q for such periods.

Also in connection with preparing this Annual Report on Form 10-K, the Company concluded that it had not recorded an adjustment related to its adoption on July 2, 2023 of ASU 2016-13 Financial Instruments - Credit Losses (ASU 326): Measurement of Credit Losses on Financial Instruments. As of July 2, 2023, the Company should have performed an assessment and recorded any adjustment as a modified retrospective adjustment through its opening retained earnings balance. This error resulted in an overstatement of accounts receivable, contract assets, other assets and retained earnings in the unaudited consolidated balance sheets as of March 30, 2024, December 30, 2023 and September 30, 2023 (the “2024 Interim Balance Sheets”). Management concluded that the errors were immaterial to the previously issued 2024 Interim Balance Sheets and, as a result, the 2024 Interim Balance Sheets have been revised within Note 15 - "Restatement and Revision of Interim Financial Information."

This Annual Report on Form 10-K includes restated consolidated financial statements as of and for the years ended July 1, 2023 and July 2, 2022, restated unaudited consolidated statements of operations for the quarters ended March 30, 2024, December 30, 2023, September 30, 2023, April 1, 2023, December 31, 2022, October 1, 2022, April 2, 2022, January 1, 2022, and October 2, 2021 and revised unaudited consolidated balance sheets as of March 30, 2024, December 30, 2023 and September 30, 2023. For additional information, see Note 14 - “Restatement of Previously Issued Financial Statements” and Note 15 - "Restatement and Revision of Interim Financial Information" of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. In addition, the following items of this Annual Report on Form 10-K have been restated, as appropriate, to correct the errors noted above: Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Part II, Item 8. Financial Statements and Supplementary Data.

In connection with the restatement and revisions, Company management determined there were deficiencies in the Company’s internal control over financial reporting and the Company’s disclosure controls and procedures that constituted material weaknesses as of June 29, 2024, July 1, 2023 and July 2, 2022. As a result, and as further discussed in Part II, Item 9A. Controls and Procedures of this Annual Report on Form 10-K, Company management has concluded that the Company did not maintain effective disclosure controls and procedures and internal control over financial reporting as of June 29, 2024.

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 2024, 2023, and 2022, the five largest customers in each year accounted for 34 percent, 35 percent, and 39 percent of combined total net sales, respectively. We aim 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 percent or more of total net sales during the last two fiscal years:

| | Percentage of Net Sales by Fiscal Year | | |
|------------|--|------|------|
| | 2024 | 2023 | 2022 |
| Customer A | 20% | 12% | 12% |
| Customer B | * | * | 13% |

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 June 29, 2024, we had 4,122 full-time employees compared to 5,447 on July 1, 2023. 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 June 29, 2024, our order backlog was valued at approximately \$249.6 million, compared to approximately \$343.0 million on July 1, 2023. 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 Note 11 - “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> | | |
| Brett R. Larsen | 51 | President and Chief Executive Officer |
| Anthony G. Voorhees | 50 | Executive Vice President of Administration, Chief Financial Officer, and Treasurer |
| Philip S. Hochberg | 62 | Executive Vice President of Customer Relations and Integration |
| Duane D. Mackleit | 56 | Executive Vice President of Operations |
| David H. Knaggs | 43 | Executive Vice President of Quality, Regulatory Affairs, and Information Systems |
| Chad T. Orebaugh | 53 | Executive Vice President of Engineering |
| Mark Courtney | 58 | Vice President of Supply Chain |

Executive Officers

BRETT R. LARSEN – President and Chief Executive Officer

Mr. Larsen, age 51, has served as President and Chief Executive Officer since July 2024. Previously he was the Executive Vice President of Administration, Chief Financial Officer, and Treasurer from July 2015 through June 2024. 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.

ANTHONY G. VOORHEES - Executive Vice President of Administration, Chief Financial Officer, and Treasurer

Mr. Voorhees, age 50, has served as Executive Vice President of Administration, Chief Financial Officer, and Treasurer since July 2024. Previously, he was Vice President of Finance and Controller from November 2021 to June 2024, Senior Manager of Corporate Finance from July 2015, and Manager of Financial Reporting since April 2010. Prior to joining Key Tronic, Mr. Voorhees worked at Coldwater Creek from August 2007 to March 2010 as a Senior Financial Reporting Accountant. Prior to that, he worked at Moss Adams, LLP as a Senior Assurance Associate from November 2004 to August 2007. Between September 2001 and August 2004, Mr. Voorhees held senior level accounting positions at Boise State University and Idaho State Department of Agriculture. Mr. Voorhees has a bachelor degree in Accounting from the University of Idaho and is a Certified Public Accountant.

PHILIP S. HOCHBERG – Executive Vice President of Customer Relations and Integration

Mr. Hochberg, age 62, has been Executive Vice President of Customer Relations and Integration 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 56, 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 43, has been Executive Vice President of Quality, Regulatory Affairs, 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 53, 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 58, 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
- 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; and
- our locations may be impacted by future temporary closure related to cyberattacks.

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 credit losses, provision for inactive, obsolete, and surplus inventory, stock-based compensation, the valuation allowance on deferred tax assets, impairment of long-lived assets, long-term incentive compensation accrual, the provision for warranty costs, and the impact of hedging activities.

Due to the COVID-19 pandemic, we have seen extreme shifts in demand from our customer base. The possibility of future temporary closures and labor constraints, as well as the inability to predict customer demand, costs, and future supply chain disruptions during pandemics 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. As the inflation rate continues to increase, the costs of labor and other expenses have and may continue to increase. We may not be able to increase our product prices enough to offset these increased costs. In addition, any increase in our product prices may reduce our future customer orders and profitability. Inflation may further exacerbate other risk factors discussed in this 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 principal customers, or the reduction, delay or cancellation of orders from such customers, due to economic conditions or other forces, could materially and adversely affect our business, operating results and financial

condition. The contraction in demand from certain industries could impact our customer orders and have a negative impact on our operations over the foreseeable future.

Our inability to enforce contracts with, or the bankruptcy or insolvency of, any of our principal customers could adversely affect our business.

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

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

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

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

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

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

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

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

Global economic and political events or significant currency exchange fluctuations, can occur, and cause further unexpected losses. Future temporary closures of production facilities in Mexico could also cause significant changes in our ability to qualify for hedge accounting treatment of our forward contracts to hedge foreign currency fluctuations.

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

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

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

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

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

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

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

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

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

We are subject to a variety of domestic and foreign environmental regulations relating to the use, storage, and disposal of materials used in our manufacturing processes. In addition, increasing governmental focus on climate change may result in new environmental regulations that may negatively affect us, our vendors or our customers. As a result, we may incur additional costs or obligations in complying with any new environmental and reporting requirements, as well as increased indirect costs resulting from our vendors or 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 business reputation may also be damaged. The failure of the products that we manufacture or our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a manufacturing process or facility. Our customers are required to indemnify us against liability associated with designing products to meet their specifications. However, if our customers are responsible for the defects, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims.

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

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

Energy price increases may negatively impact our results of operations.

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

TECHNOLOGY RISKS

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

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

We routinely monitor our systems for cyber threats and believe we have sufficient processes in place to detect and remediate vulnerabilities. Nevertheless, we have experienced attempted security breaches, such as phishing emails and other targeted attacks. For example, as previously disclosed in our Form 8-K filed with the SEC on May 10, 2024, as amended, we became aware of unauthorized access to our IT systems that resulted in a material impact on our financial condition and results of operations during the fourth quarter ending June 29, 2024 (the "Previously Disclosed Cyber Incident"). We expect that our operations will continue to be subject to cyber threats, and any future cybersecurity incident could significantly disrupt our operations.

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

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

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

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

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

RISKS RELATED TO CAPITAL AND FINANCING

Our failure to comply with the covenants in our credit arrangements could materially and adversely affect our financial condition.

We have restrictive covenants with our financial institutions that impact how we manage our business. We have not always met these covenants in the past and have had to obtain waivers and amend our Loan Agreement, including for events of default related to breaches of the fixed charge coverage ratio for fiscal quarter ended March 30, 2024 and the periods ended June 29, 2024 and July 27, 2024. The amendment waiving the event of default for fiscal quarter ended March 30, 2024 resulted in an increase in interest rates and shortened the maturity date to September 3, 2025. In addition, this amendment reduced the minimum requirement for the fixed charge coverage ratio from 1.25:1.00 to 1.00:1.00 as of March 30, 2024, with the minimum requirement to increase as follows: 1.05:1.00 on July 27, 2024, 1.15:1.00 on October 26, 2024, 1.20:1.00 on January 25, 2025 and 1.25:1.00 on and after March 29, 2025. As noted above, we were unable to meet this ratio for the periods ended June 29, 2024 and July 27, 2024, and we also breached a covenant requiring us to deliver audited financial statements to the lender within 90 days of the Company's fiscal year-end. As a result, we had to further amend our Loan Agreement on October 9, 2024. The amendment waiving these events of default resulted in an increase in interest rates and increased the availability block, which reduces the calculated borrowing base under the Loan Agreement, from \$8 million to \$10 million, with further increases to \$11 million and \$12 million to be effective on December 31, 2024 and March 31, 2025, respectively.

We may not meet the minimum fixed charge coverage ratio or comply with other covenants in the future and may not be able to obtain waivers or amendments from the relevant lenders on terms acceptable to us, or at all. In the event we breach any

covenant that results in an event of default, our lenders could choose to accelerate payment of the amounts owed by the Company. Under those circumstances our borrowings could become immediately payable. The amendment of our credit arrangements on unfavorable terms or the acceleration of our payment obligations thereunder, would have a material adverse effect on our business, financial condition, results of operations and cash flows. For a summary of our debt obligations, see Note 4 - "Long-Term Debt" of the Notes to Consolidated Financial Statements.

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, renew, or refinance our credit arrangements on terms acceptable to us, or at all. As noted in the prior risk factor, a recent amendment to our Loan Agreement shortened the maturity date to September 3, 2025. On September 27, 2024, in connection with the preparation of this Annual Report on Form 10-K, we entered into an additional amendment to the Loan Agreement to extend the maturity date by three months to December 3, 2025. Because our Loan Agreement terminates on December 3, 2025, we need to extend, renew or refinance this agreement in the coming months. The terms available to us may be less favorable than the terms of our existing Loan Agreement. Our inability to extend, renew, or refinance our indebtedness on a timely basis could also result in unfavorable accounting treatment. This could include management and our independent auditors concluding on risks over the Company's ability to continue as a going concern. Our inability to extend, renew or refinance our credit arrangements could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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

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

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

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

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

Our stock price is volatile.

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

RISKS RELATED TO OUR CONTROLS AND PROCEDURES AND THE INTERNAL INVESTIGATION

We have concluded that our internal control over financial reporting and our disclosure controls and procedures were not effective as of June 29, 2024 due to material weaknesses, which has adversely affected our ability to report our financial results in a timely and accurate manner and could have a material adverse impact on our business and financial condition.

We are required to evaluate the effectiveness of our disclosure controls and procedures and our internal control over financial reporting on a periodic basis and publicly disclose the results of these evaluations and related matters in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As described in Item 9A. Controls and Procedures of this Annual Report on Form 10-K, we have identified a material weakness in the design and implementation of effective controls over the accounting for revenue recognition relating to cost recovery of material price variances. We have also identified a material weakness in the design and implementation of effective controls over the adoption of new accounting standards. As a result of these material weaknesses, our management concluded that our internal control over financial reporting and disclosure controls and procedures were not effective as of June 29, 2024.

We are engaged in developing and implementing a remediation plan, as described in Item 9A. Controls and Procedures of this Annual Report on Form 10-K, designed to address the material weaknesses, but our remediation efforts are not complete and are ongoing. Although we are working to remedy the ineffectiveness of the Company's internal control over financial reporting, there can be no assurance as to when the remediation plan will be fully developed, when it will be fully implemented or the aggregate cost of implementation. Until our remediation plan is fully implemented, our management will continue to devote time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future consolidated financial statements could contain errors that will be undetected. If we are unable to report our results in a timely and accurate manner, our stock may be delisted from the NASDAQ Global Market and we will not be able to comply with the applicable covenants in our financing arrangements, including our Loan Agreement, as described in —Risks Related to Capital and Financing—“Our failure to comply with the covenants in our credit arrangements could materially and adversely affect our financial condition.” In addition, we could be subject to regulatory investigations and penalties or stockholder litigation. Any of these risks could have a material adverse impact on our business and financial condition.

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

We cannot assure you that we will not discover additional deficiencies in our internal control over financial reporting. Moreover, as discussed in the following risk factor, 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 June 29, 2024, 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.

Further and continued determinations that there are deficiencies in the effectiveness of the Company's internal control over financial reporting could result in another restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing, 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.

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.

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 in fiscal year 2022. To the extent these steps taken to remediate identified deficiencies in our internal controls over financial reporting were not successful, we may incur significant additional time and expense.

In addition, we continue to cooperate with the Securities and Exchange Commission (the "SEC") regarding matters related to the internal investigation. The completion of the internal investigation in fiscal year 2022 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.

LEGAL AND ACCOUNTING RISKS

We have restated certain of our prior consolidated financial statements, which has resulted in unanticipated costs and may lead to additional risks and uncertainties, including loss of investor confidence, regulatory action or litigation.

In this Annual Report on Form 10-K, we have restated or revised certain of our previously issued financial statements. This process has been time-consuming and expensive, including unanticipated costs for accounting and legal fees. The restatement and revisions also expose us to additional risks that could adversely affect our business and financial condition, such as litigation, regulatory action or loss of investor confidence. Lawsuits or regulatory investigations may invoke federal and state securities law claims, contractual claims or other claims arising from the restatement, revisions and material weaknesses in our internal control over financial reporting. We may incur substantial defense costs regardless of the outcome of any litigation or regulatory investigation, and such events might cause a diversion of our management's time and attention. If we do not prevail in any litigation or regulatory action, we could be required to pay substantial damages, penalties or settlement costs. In addition, the restatement and revisions may lead to a loss of investor confidence and have negative impacts on the trading price of our common stock.

We are involved in various legal proceedings.

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

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

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

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

Changes in financial accounting standards may affect our reported financial condition or results of operations as well 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 1C. CYBERSECURITY**Risk Management and Strategy**

We have developed and implemented cybersecurity processes to assess, identify and manage material risks from cybersecurity threats. These processes are based on the National Institute of Standards and Technology Cybersecurity Framework (NIST CSF) and are designed to protect the integrity and security of our information systems. Our cybersecurity processes are a part of our risk management system, sharing governance processes and reporting structures with other components of our enterprise-wide system. Our cybersecurity processes include security monitoring and threat hunting through a third-party managed vendor and mandatory, Company-wide employee training. Our cybersecurity processes also extend to the oversight and identification of risks associated with our vendors and customers if their computer systems interface with our information systems. Upon detection of a potentially material cybersecurity incident, such as the Previously Disclosed Cyber Incident, we activate our cyber incident procedure to investigate, contain and remediate the incident. Depending on the extent and severity of the incident, we have, and may in the future, engage third-party cybersecurity consultants to assist with our cyber incident procedure.

Risks from cybersecurity threats, including as a result of the Previously Disclosed Cyber Incident, have materially affected us, including our results of operations and financial condition. We continue to face risks from this and other cybersecurity threats that, if realized, are reasonably likely to materially affect us, including our business strategy, results of operations, or financial condition. See “Risk Factors – Technology Risks.”

Governance

Our Board of Directors is responsible for the oversight of risk management for the Company, including the review and assessment of the Company’s enterprise risk management approach and processes. Our Board of Directors has delegated certain responsibility for the oversight of risks from cybersecurity threats to the Audit Committee. At each regularly scheduled quarterly meeting, and more frequently as necessary, management provides updates to the Audit Committee and our Board of Directors regarding the risks from cybersecurity threats. These updates include information regarding cybersecurity strategies, management structure, mitigation activities and an analysis of any actual or potential cybersecurity incidents.

Our management team, including our Chief Executive Officer and Executive Vice President of Quality and Information Systems, is responsible for assessing and managing our material risks from cybersecurity threats. In particular, our EVP of Quality and Information Systems, who reports directly to our Chief Executive Officer, oversees the implementation of controls designed to prevent, detect, mitigate and recover from cybersecurity threats and cybersecurity incidents. Our current EVP of Quality and Information Systems has a Bachelor of Science degree in Mechanical Engineering and over 14 years of experience building and executing information system strategies. The other members of our management team do not have specialized information systems or cybersecurity backgrounds but have general experience managing financial, legal and operational risks. Our EVP of Quality and Information Systems, along with his team, routinely monitors the Company’s information systems for cybersecurity threats and will be notified upon the occurrence of a potential cybersecurity incident.

Upon detection of a potentially material cybersecurity incident, such as the Previously Disclosed Cyber Incident, management will inform the Audit Committee and/or our Board of Directors and, if the incident is deemed material, will disclose the incident pursuant to SEC rules and regulations.

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 |
| Total Mexico | 899,000 | | |
| Shanghai, China | 103,000 | Leased | Manufacturing and warehouse |
| Total China | 103,000 | | |
| Da Nang, Vietnam | 133,000 | Leased | Manufacturing and warehouse |
| Total Vietnam | 133,000 | | |
| Grand Total | 1,904,000 | | |

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 ISO 45001 Occupational Health and has a certified ANSI/ESD S20.20 Electrostatic Discharge Control Program.
- The Oakdale, Minnesota facility is additionally registered to ISO 13485:2016 medical devices standard, AS9100D aviation, space and defense standard, and has a certified ANSI/ESD S20.20 Electrostatic Discharge Control Program.
- The Fayetteville, Arkansas facility is additionally registered to AS9100D aviation, space and defense standard and has 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; and Spokane, Washington facilities are 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 8. 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 2024 and fiscal year 2023 were as follows:

| | 2024 | | 2023 | |
|----------------|---------|---------|---------|---------|
| | High | Low | High | Low |
| First Quarter | \$ 6.24 | \$ 4.32 | \$ 5.50 | \$ 4.00 |
| Second Quarter | \$ 4.50 | \$ 3.72 | \$ 5.18 | \$ 4.03 |
| Third Quarter | \$ 5.14 | \$ 4.04 | \$ 7.50 | \$ 4.33 |
| Fourth Quarter | \$ 4.85 | \$ 3.69 | \$ 7.53 | \$ 5.18 |

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.

Holders and Dividends

As of June 29, 2024, we had 561 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.

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

Restatement

This Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement of the Company's previously issued consolidated financial statements as of and for the years ended July 1, 2023 and July 2, 2022. The restatement was due to errors in recording cost recovery related to material price variances in certain of the Company's facilities. These errors led to an understatement of both revenue and cost of goods sold during the impacted periods. For additional information, see Note 14 - "Restatement of Previously Issued Financial Statements" in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. The Company's previously issued unaudited interim consolidated statements of operations for the quarters ended March 30, 2024, December 30, 2023, September 30, 2023, April 1, 2023, December 31, 2022, October 1, 2022, April 2, 2022, January 1, 2022, and October 2, 2021 have also been restated due to these errors, and the Company's previously issued unaudited interim balance sheets as of March 30, 2024, December 30, 2023, September 30, 2023 have been revised due to errors related to the adoption of ASU 326. For additional information regarding these interim periods, see Note 15 – "Restatement and Revision of Interim Financial Information" of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

Overview

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

Our 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 2024, we won new programs involving medical devices, sheet metal fabrication, and consumer products.

We reported net sales of \$566.9 million for fiscal year 2024, down 6.3 percent from \$605.3 million for fiscal year 2023. The decrease in fiscal year 2024 was driven by softer demand from Mexico-based programs, and production stoppages due to a cybersecurity incident that occurred in the fourth quarter, as previously reported.

Moving into fiscal year 2025, we expect revenue and earnings to rebound as production has resumed across our facilities. Additionally, the Company is beginning to realize operational efficiencies as a result of headcount reductions announced in the third quarter of fiscal year 2024, coupled with a favorable weakening of the Mexican Peso to the US dollar of approximately 10% beginning in June. We continue to win new programs and reduce inventories to be more aligned with current revenue levels.

For the first quarter of fiscal year 2025, we believe global logistics problems, China-US political tensions and continued supply-chain concerns will continue to drive the favorable trend of contract manufacturing returning to North America, as well

as to our expanding Vietnam facilities. We continue to see improvement across the metrics associated with business development, including a significant increase in the number of active quotes with prospective customers.

We aim to diversify our customer base by adding additional programs and customers. Our current customer relationships involve a variety of products including sheet metal fabrication, medical devices and components, water purification products, consumer security products, aerospace and defense products, recreational and outdoor equipment, and plastics.

Gross profit as a percentage of net sales was 7.0 percent in fiscal year 2024, down from 7.8 percent in 2023. During fiscal year 2024, our gross margin was also adversely impacted by a cybersecurity incident late in the year, and continued increases in Mexican wages as well as the strengthening of the Mexican Peso relative to the US Dollar. Additionally, as previously disclosed, a restructuring of our Mexico-based facility to focus on higher volume manufacturing resulted in severance expenses incurred late in the year which we expect to provide benefits to the gross profit margin in future periods. 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 2024 was 1.2 percent compared to 2.7 percent for fiscal year 2023. In addition to the factors discussed above, we incurred expenses related to the cybersecurity incident late in the year, and our 2023 results included a significant gain on insurance related to losses incurred from storm damage to the Company's Arkansas facility in 2022.

Net loss for fiscal year 2024 was \$2.8 million or \$0.26 per share, as compared to net income of \$5.2 million or \$0.47 per share for fiscal year 2023. Earnings for fiscal 2024 continued to be adversely impacted by increased interest expense and were also impacted by the cybersecurity incident, and severance expenses.

We maintained a strong balance sheet with a current ratio of 2.8 and a debt-to-equity ratio of 0.96. Total cash provided by operating activities as defined on our cash flow statement was \$13.8 million during fiscal year 2024, as we have continued to focus on decreasing accounts receivable and inventory balances. 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 June 29, 2024 with the Fiscal Year Ended July 1, 2023

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.

| (in thousands) | Fiscal Year Ended | | | | | |
|---|-------------------|----------------|--------------|----------------|-------------|----------------|
| | June 29, 2024 | % of net sales | July 1, 2023 | % of net sales | \$ change | % point change |
| | | | (Restated) | | | |
| Net sales | \$ 566,942 | 100.0% | \$ 605,315 | 100.0% | \$ (38,373) | — |
| Cost of sales | 527,063 | 93.0 | 557,843 | 92.2 | (30,780) | 0.8 |
| Gross profit | 39,879 | 7.0 | 47,472 | 7.8 | (7,593) | (0.8) |
| Operating expenses: | | | | | | |
| Research, development and engineering | 8,333 | 1.5 | 9,735 | 1.6 | (1,402) | (0.1) |
| Selling, general and administrative | 25,219 | 4.4 | 25,715 | 4.2 | (496) | 0.2 |
| Gain on insurance proceeds, net of losses | (431) | (0.1) | (4,301) | (0.7) | 3,870 | 0.6 |
| Total operating expenses | 33,121 | 5.8 | 31,149 | 5.1 | 1,972 | 0.7 |
| Operating income | 6,758 | 1.2 | 16,323 | 2.7 | (9,565) | (1.5) |
| Interest expense, net | 11,945 | 2.1 | 10,023 | 1.7 | 1,922 | 0.4 |
| Income (loss) before income taxes | (5,187) | (0.9) | 6,300 | 1.0 | (11,487) | (1.9) |
| Income tax provision (benefit) | (2,400) | (0.4) | 1,143 | 0.2 | (3,543) | (0.6) |
| Net income (loss) | \$ (2,787) | (0.5)% | \$ 5,157 | 0.9% | \$ (7,944) | (1.4) |
| Effective income tax rate | 46.3 % | | 18.1 % | | | |

Net Sales

The decrease in net sales of \$38.4 million from the prior fiscal year was primarily due to production stoppages due to the cybersecurity incident which caused the company to be unable to fulfill approximately \$15 million of revenue during the fourth quarter of fiscal year 2024, as well as softer demand from Mexico-based programs.

The following table shows the revenue by industry sectors as a percentage of revenue for fiscal years 2024 and 2023:

| | Fiscal Year Ended | |
|----------------|-------------------|--------------|
| | June 29, 2024 | July 1, 2023 |
| Industrial | 46 | 42 |
| Consumer | 45 | 44 |
| Communication | 4 | 9 |
| Medical | 3 | 1 |
| Gaming | 1 | 1 |
| Transportation | 1 | 3 |
| 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 a result, we expect to continue to see a change in the industry concentrations of our revenue over time.

Sales to foreign locations represented 22.5 percent and 14.3 percent of our total net sales in fiscal years 2024 and 2023, respectively.

Cost of Sales

Total cost of sales as a percentage of net sales was 93.0 percent in fiscal year 2024 and 92.2 percent in fiscal year 2023.

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 \$0.3 million and \$0.4 million in fiscal years 2024 and 2023, 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 \$0.3 million and \$0.3 million in fiscal years 2024 and 2023, respectively.

Gross Profit

Gross profit as a percentage of net sales was 7.0 percent in fiscal year 2024 and 7.8 percent in fiscal year 2023. During fiscal year 2024, we incurred expenses related to a cybersecurity incident late in the year of approximately \$2.3 million. Additionally, we incurred severance expenses related to a headcount reduction in our Mexico based facilities, and starting in the fourth quarter of fiscal year 2024, we are beginning to realize the operational efficiencies as a result of these headcount reductions.

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 \$8.3 million and \$9.7 million in fiscal years 2024 and 2023, respectively. Total RD&E expenses as a percent of net sales was 1.5 percent in fiscal year 2024 and 1.6 percent in fiscal year 2023.

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 credit losses, facilities costs, and professional services. Total SG&A expenses were \$25.2 million and \$25.7 million in fiscal years 2024 and 2023, respectively. Total SG&A expenses as a percent of net sales were 4.4 percent and 4.2 percent in fiscal years 2024 and 2023, respectively.

Interest Expense

We had net interest expense of \$11.9 million and \$10.0 million in fiscal years 2024 and 2023, respectively. The increase in interest expense is primarily related to increased interest rates due to the amended line of credit agreement, and an increase in the average balance outstanding throughout the year.

Income Tax Provision

We had an income tax benefit of approximately \$2.4 million during fiscal year 2024 and an income tax expense of approximately \$1.1 million during fiscal year 2023. The income tax benefit/expense recognized during both fiscal years 2024 and 2023 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, and the impact of foreign exchange gains in fiscal year 2023.

We continually review our requirements for liquidity domestically to fund current operations, revenue growth, and 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".

Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared in accordance with generally accepted accounting principles in the United States (GAAP), we use certain non-GAAP financial measures, adjusted net income and adjusted net income per share, diluted. Beginning with the full year of fiscal year 2024, we provide these non-GAAP financial measures

because we believe they provide greater transparency related to our core operations and represent supplemental information used by management in its financial and operational decision making. We exclude (or include) certain items in our non-GAAP financial measures as we believe the net result is a measure of our core business. We believe this facilitates operating performance comparisons from period to period by eliminating potential differences caused by the existence and timing of certain income and expense items that would not otherwise be apparent on a GAAP basis. Non-GAAP performance measures should be considered in addition to, and not as a substitute for, results prepared in accordance with GAAP. The non-GAAP financial measures disclosed below should be read in conjunction with the remainder of this Annual Report on Form 10-K, including the consolidated financial statements and footnotes thereto. Our non-GAAP financial measures may be different from those reported by other companies. See the table below for reconciliations of adjusted net income to the most directly comparable GAAP measure, which are GAAP net income and the computation of adjusted net income per share, diluted.

| (in thousands, except per share amounts) | Twelve Months Ended | |
|---|---------------------|-----------------|
| | June 29, 2024 | July 1, 2023 |
| GAAP net income (loss) | \$ (2,787) | \$ 5,157 |
| Cybersecurity expenses | 2,340 | — |
| Severance expenses (benefit) | 945 | 354 |
| Gain on insurance proceeds (net of losses) | (431) | (4,301) |
| Stock-based compensation expense | (444) | 254 |
| Income tax effect of non-GAAP adjustments (1) | (482) | 739 |
| Adjusted net income (loss): | <u>\$ (859)</u> | <u>\$ 2,203</u> |
| | | |
| Adjusted net income (loss) per share — non-GAAP Diluted | <u>\$ (0.08)</u> | <u>\$ 0.20</u> |
| Weighted average shares outstanding — Diluted | <u>10,762</u> | <u>10,938</u> |

(1) Income tax effects are calculated using an effective tax rate of 20%, which approximates the statutory tax rates for the presented periods.

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 three 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 \$127.6 million and \$86.5 million in fiscal years 2024 and 2023, 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 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.

| (in thousands) | Fiscal Year Ended | | | | | |
|---|-------------------|----------------|--------------|----------------|-----------|----------------|
| | July 1, 2023 | % of net sales | July 2, 2022 | % of net sales | \$ change | % point change |
| | (Restated) | | (Restated) | | | |
| Net sales | \$ 605,315 | 100.0% | \$ 544,177 | 100.0% | \$ 61,138 | — |
| Cost of sales | 557,843 | 92.2 | 500,963 | 92.1 | 56,880 | 0.1 |
| Gross profit | 47,472 | 7.8 | 43,214 | 7.9 | 4,258 | (0.1) |
| Operating expenses: | | | | | | |
| Research, development and engineering | 9,735 | 1.6 | 9,821 | 1.8 | (86) | (0.2) |
| Selling, general and administrative | 25,715 | 4.2 | 24,598 | 4.5 | 1,117 | (0.3) |
| Gain on insurance proceeds, net of losses | (4,301) | (0.7) | — | — | (4,301) | (0.7) |
| Total operating expenses | 31,149 | 5.1 | 34,419 | 6.3 | (3,270) | (1.2) |
| Operating income | 16,323 | 2.7 | 8,795 | 1.6 | 7,528 | 1.1 |
| Interest expense, net | 10,023 | 1.7 | 5,104 | 0.9 | 4,919 | 0.8 |
| Income before income taxes | 6,300 | 1.0 | 3,691 | 0.7 | 2,609 | 0.3 |
| Income tax provision | 1,143 | 0.2 | 314 | 0.1 | 829 | 0.1 |
| Net income | \$ 5,157 | 0.8% | \$ 3,377 | 0.6% | \$ 1,780 | 0.2 |
| Effective income tax rate | 18.1 % | | 8.5 % | | | |

Net Sales

The increase in net sales of \$61.1 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 | 44 | 50 |
| Industrial | 42 | 42 |
| Communication | 9 | 8 |
| Medical | 3 | — |
| Gaming | 1 | 1 |
| Transportation | 1 | — |
| Printers | — | 1 |
| Computer and Peripheral | — | 1 |
| Total | 56% | 53% |

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 14.3 percent and 17.2 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 92.2 percent in fiscal year 2023 and 92.1 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 7.8 percent in fiscal year 2023 and 7.9 percent in fiscal year 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 1.6 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 4.2 percent and 4.5 percent in fiscal years 2023 and 2022, respectively. This 0.3 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 three 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 \$86.5 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.

Capital Resources and Liquidity

Operating Cash Flow

Net cash provided by operating activities for fiscal year 2024 was \$13.8 million compared to net cash used in operating activities of \$11.3 million in fiscal year 2023. The additional cash provided in fiscal year 2024 was due to a focus on collecting accounts receivable and working down inventory balances to be in line with current revenue levels.

The \$13.8 million of net cash provided by operating activities during fiscal year 2024 is primarily related to \$2.8 million of net loss adjusted for \$11.0 million of depreciation and amortization, \$15.8 million decrease in accounts receivable, a \$32.5 million decrease in inventory, an \$8.7 million decrease in contract assets partially offset by a \$36.5 million decrease in accounts payable, a \$2.9 million decrease in accrued compensation and vacation, \$0.6 million increase in other assets and a \$8.1 million decrease in other liabilities.

The \$11.3 million of net cash used in operating activities during fiscal year 2023 was 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 \$16.0 million decrease in other liabilities, a \$5.5 million decrease in accounts payable, a \$8.0 million increase in contract assets partially offset by a \$17.4 million decrease in inventory, and a \$1.5 million increase in accrued compensation and vacation.

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 \$2.1 million for fiscal year 2024. Cash flows used in investing activities were \$4.5 million in fiscal year 2023. Our primary use of cash in investing activities during fiscal years 2024 and 2023 was purchasing equipment to support increased production levels for new programs. During fiscal year 2024, 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 used in financing activities were \$10.5 million in fiscal year 2024 and cash flows provided by financing activities were \$17.7 million in fiscal year 2023. Our primary financing activities during both fiscal year 2024 and fiscal year 2023 were borrowings and repayments under our revolving line of credit facility as well as repayments on our term loans and principal payments on finance leases. In fiscal year 2024, there was a significantly higher percentage of repayments against the borrowings on the revolving line of credit.

As of June 29, 2024, approximately \$12.9 million was available under the asset-based revolving credit facility. Due to corrections made to our financial statements as part of the restatement process described in this Annual Report, we determined that as of June 29, 2024 and July 27, 2024, we were not in compliance with the minimum fixed charge coverage ratio of 1.00:1.00 and 1.05:1.00, respectively, required under our Loan Agreement for the revolving credit facility. As a result, we obtained a waiver from the lender for these events of default, which was effective as of October 9, 2024, and amended our Loan Agreement. As previously disclosed, we also had to obtain a waiver for breaches of the fixed charge coverage ratio for fiscal quarter ended March 30, 2024 and amend the Loan Agreement to covenant relief for the fixed charge coverage ratio, reducing the minimum requirement from 1.25:1.00 to 1.00:1.00 as of March 30, 2024, with increases as follows: 1.05:1.00 on July 27, 2024, 1.15:1.00 on October 26, 2024, 1.20:1.00 on January 25, 2025 and 1.25:1.00 on and after March 29, 2025. These breaches and subsequent amendments have resulted in an increase in interest rates, an increase in the availability block, which limits available borrowing under the Loan Agreement, and a shortened maturity date to September 3, 2025 (extended to December 3, 2025). We believe we are in compliance with the minimum fixed charge coverage ratio of 1.05:1.00 as of the end of August 2024 and have not yet finalized our calculation for September of 2024 to determine if we are in compliance with the minimum fixed charge coverage ratio of 1.05:1.00. In addition, we may not be able to comply with the increased minimum fixed charge coverage ratio of 1.15:1.00 as of October 26, 2024 or in future periods. If we are unable to comply with restrictive covenants on the Loan Agreement, including the fixed charge coverage ratio, we will need to negotiate additional waivers and amendments, which may further increase interest rates, limit our borrowing availability, shorten the maturity date or impose other adverse consequences. As a result, and due to the upcoming maturity of the Loan Agreement on December 3, 2025, we are in discussions with financial institutions to refinance our revolving line of credit. The terms available to us may be less favorable than the terms of our existing Loan Agreement. For additional information, see Note 1 - "Significant Accounting Policies-Liquidity" of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K and Part I, Item 1A. Risk Factors "Risks Related to Capital and Financing" *"Our failure to comply with the covenants in our credit arrangements could materially and adversely affect our financial condition"* and *"Our ability to secure and maintain sufficient credit arrangements is key to our continued operations."*

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 at least twelve months beyond issuance of our financial statements, and our current asset-based senior secured revolving credit facility does not mature until December 3, 2025. 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 June 29, 2024, we had approximately \$4.7 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 June 29, 2024 would approximate \$15,893.

The Company also has approximately \$38.5 million of foreign earnings that have not been repatriated to the U.S. of that amount, the Company estimates that \$8.0 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 \$30.5 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 5 "Income Taxes" 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 2024 under lease obligations and debt arrangements.

As of June 29, 2024, 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 June 29, 2024, please refer to Note 13 “Leases” of the “Notes to Consolidated Financial Statements”.

For a summary of our long-term debt obligations as of June 29, 2024, 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 costs related to the services are incurred, which approximates proportional performance of

the service. This method is used because management considers it to be the best available measure of progress on the contracts. Revenue from scrap and excess inventory sales is recognized at the point-in-time of scrap at the customers direction, or, if applicable, shipment of the material to the customer.

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 Credit Losses

We value our accounts receivable net of an allowance for credit losses. As of June 29, 2024, the allowance for credit losses was approximately \$2.9 million. As of July 1, 2023, the allowance for credit losses was approximately \$23,000. The increase during fiscal year 2024 relates to the adoption of ASC 326, which was adopted on a modified retrospective basis. 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 on specific identification of potentially uncollectible accounts as well as a general calculation based on the company's collection history. 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, line of credit facility, and equipment financing facility are secured by substantially all of our assets. The interest rates applicable to our asset-based senior secured revolving credit facility fluctuate with SOFR rates. The interest rates applicable to our asset-based secured line of credit facility fluctuate with Iterbancaria de Equilibrio Interest Rate. There was outstanding \$107.1 million in borrowings under our asset-based senior secured revolving credit facility, MXN99 million (\$5.4 million USD) outstanding in borrowing under our line of credit, and \$8.0 million outstanding on our equipment financing facilities as of June 29, 2024.

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 would directly or indirectly affect our financial results. From time to time, we use Mexican Peso forward contracts to hedge foreign currency fluctuations for a portion of our Mexican Peso denominated expenses. There was \$12.5 million of foreign currency forward contracts outstanding as of June 29, 2024. See Note 9 - “Derivative Financial Instruments” to the Notes to Consolidated Financial Statements for additional information regarding our derivative instruments.

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 June 29, 2024, July 1, 2023, and July 2, 2022, the related consolidated statements of operations, comprehensive income (loss), cash flows, and shareholders’ equity 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 June 29, 2024, 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.

Restatement of Previously Issued Financial Statements

As discussed in Note 14 to the consolidated financial statements, the consolidated financial statements for the years ended July 1, 2023 and July 2, 2022, have been restated to correct misstatements.

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 \$567 million for the year ended June 29, 2024, of which \$497 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 the auditing of revenue recognized over time on contracts for manufacturing products, including the total estimated costs at completion of the performance obligation as a critical audit matter. Auditing management's estimates used in the calculation of revenue recognized over time involved significant audit effort, as well as especially challenging and subjective auditor judgment when performing audit procedures and evaluating the results of those procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures related to auditing revenue recognized over time on contracts for manufacturing products, including the total estimated costs at completion of the performance obligation, included the following, among others:

- Evaluating the methodology of estimating costs incurred to date on in-process contracts, testing the completeness and accuracy of the system generated reports used to estimate costs incurred, and performing data validation procedures.
- Recalculating the expected costs on in-process contracts, testing a selection of contracts to source documents, and 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, including the ratio of costs incurred to date as compared to the total estimated costs at completion of the performance obligations.
- 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
October 15, 2024

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

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

| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
|---|-------------------|-------------------|-------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 4,752 | \$ 3,603 | \$ 1,707 |
| Trade receivables, net of credit losses of \$2,918, \$23 and \$12 | 132,559 | 150,600 | 135,876 |
| Contract assets | 21,250 | 29,925 | 21,974 |
| Inventories | 105,099 | 137,911 | 155,741 |
| Other, net of credit losses of \$1,679, \$0, and \$0 | 24,739 | 27,510 | 24,710 |
| Total current assets | 288,399 | 349,549 | 340,008 |
| Property, plant and equipment, net | 28,806 | 28,870 | 26,012 |
| Operating lease right-of-use assets, net | 15,416 | 16,202 | 16,731 |
| Other assets: | | | |
| Deferred income tax asset | 17,376 | 12,254 | 10,055 |
| Other | 5,346 | 11,397 | 14,117 |
| Total other assets | 22,722 | 23,651 | 24,172 |
| Total assets | <u>\$ 355,343</u> | <u>\$ 418,272</u> | <u>\$ 406,923</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 79,394 | \$ 115,899 | 121,393 |
| Accrued compensation and vacation | 6,510 | 13,351 | 11,836 |
| Current portion of long-term debt | 3,123 | 3,138 | 2,190 |
| Other | 15,149 | 19,578 | 28,248 |
| Total current liabilities | 104,176 | 151,966 | 163,667 |
| Long-term liabilities: | | | |
| Long-term debt, net | 116,383 | 121,531 | 100,293 |
| Operating lease liabilities | 10,312 | 10,317 | 12,023 |
| Deferred income tax liability | 263 | 274 | 64 |
| Other long-term obligations | 219 | 3,567 | 5,998 |
| Total long-term liabilities | 127,177 | 135,689 | 118,378 |
| Total liabilities | 231,353 | 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, 10,762, and 10,762 shares, respectively | 47,284 | 47,728 | 47,474 |
| Retained earnings | 76,921 | 82,986 | 77,829 |
| Accumulated other comprehensive (loss) income | (215) | (97) | (425) |
| Total shareholders' equity | 123,990 | 130,617 | 124,878 |
| Total liabilities and shareholders' equity | <u>\$ 355,343</u> | <u>\$ 418,272</u> | <u>\$ 406,923</u> |

See accompanying notes to consolidated financial statements.

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

| | Fiscal Year Ended | | |
|--|-------------------|--------------------------|--------------------------|
| | June 29, 2024 | Restated July 1, 2023 | Restated July 2, 2022 |
| Net sales | \$ 566,942 | \$ 605,315 | \$ 544,177 |
| Cost of sales | 527,063 | 557,843 | 500,963 |
| Gross profit | 39,879 | 47,472 | 43,214 |
| Research, development and engineering expenses | 8,333 | 9,735 | 9,821 |
| Selling, general and administrative expenses | 25,219 | 25,715 | 24,598 |
| Gain on insurance proceeds, net of losses | (431) | (4,301) | — |
| Total operating expenses | 33,121 | 31,149 | 34,419 |
| Operating income | 6,758 | 16,323 | 8,795 |
| Interest expense, net | 11,945 | 10,023 | 5,104 |
| Income (loss) before income taxes | (5,187) | 6,300 | 3,691 |
| Income tax provision (benefit) | (2,400) | 1,143 | 314 |
| Net income (loss) | \$ (2,787) | \$ 5,157 | \$ 3,377 |
| Net income (loss) per share — Basic | \$ (0.26) | \$ 0.48 | \$ 0.31 |
| Weighted average shares outstanding — Basic | 10,762 | 10,762 | 10,762 |
| Net income (loss) per share — Diluted | \$ (0.26) | \$ 0.47 | \$ 0.31 |
| Weighted average shares outstanding — Diluted | 10,762 | 10,938 | 11,063 |

See accompanying notes to consolidated financial statements.

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

| | Fiscal Year Ended | | |
|---|-------------------|-----------------|---------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| Comprehensive income: | | | |
| Net income (loss) | \$ (2,787) | \$ 5,157 | \$ 3,377 |
| Other comprehensive income: | | | |
| Unrealized gain (loss) on hedging instruments, net of tax | (118) | 328 | (2,497) |
| Comprehensive income (loss) | <u>\$ (2,905)</u> | <u>\$ 5,485</u> | <u>\$ 880</u> |

Other comprehensive income for fiscal years 2024, 2023, and 2022 is reflected net of tax provision (benefit) of approximately \$(0.1) million, \$0.0 million, 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 | | |
|--|-------------------|--------------|--------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| Operating activities: | | | |
| Net income (loss) | \$ (2,787) | \$ 5,157 | \$ 3,377 |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 11,038 | 9,542 | 7,562 |
| Amortization of interest rate swap | 97 | 328 | 301 |
| Amortization of deferred loan costs | 339 | 154 | 143 |
| Noncash lease expense | 5,663 | 5,712 | 4,261 |
| Inventory write-down to net realizable value | 322 | 427 | 950 |
| Provision for warranty | 320 | 313 | 446 |
| Provision for credit losses | (84) | 37 | 67 |
| Gain on disposal of assets | (32) | (21) | (12) |
| Gain on insurance proceeds, net of losses | (431) | (4,301) | — |
| Share-based compensation expense | (444) | 254 | 293 |
| Deferred income taxes | (5,132) | (1,989) | 481 |
| Noncash accrued compensation benefit | (3,925) | — | — |
| Changes in operating assets and liabilities | | | |
| Trade receivables | 15,818 | (14,760) | (25,619) |
| Contract assets | 8,656 | (7,951) | 2,807 |
| Inventories | 32,490 | 17,403 | (19,362) |
| Other assets | (587) | (1,684) | (5,912) |
| Accounts payable | (36,505) | (5,494) | 28,569 |
| Accrued compensation and vacation | (2,917) | 1,515 | 365 |
| Other liabilities | (8,123) | (15,953) | (3,624) |
| Cash provided by (used in) operating activities | 13,776 | (11,311) | (4,907) |
| Investing activities: | | | |
| Purchases of property and equipment | (3,958) | (9,771) | (6,813) |
| Proceeds from sale of fixed assets | — | 1,925 | 14 |
| Prepayments on finance lease obligations | — | (188) | (1,252) |
| Proceeds from insurance | 1,850 | 3,500 | — |
| Cash used in investing activities | (2,108) | (4,534) | (8,051) |
| Financing activities: | | | |
| Payment of financing costs | (807) | (245) | (118) |
| Proceeds from issuance of long term debt | 1,178 | 4,375 | 11,594 |
| Repayments of long-term debt | (2,977) | (2,417) | (2,143) |
| Borrowings under revolving credit agreement | 521,088 | 596,121 | 581,893 |
| Repayments of revolving credit agreement | (523,931) | (575,802) | (577,703) |
| Principal payments on finance leases | (5,070) | (4,291) | (2,331) |
| Cash provided by (used in) financing activities | (10,519) | 17,741 | 11,192 |
| Net increase (decrease) in cash and cash equivalents | 1,149 | 1,896 | (1,766) |
| Cash and cash equivalents, beginning of period | 3,603 | 1,707 | 3,473 |
| Cash and cash equivalents, end of period | \$ 4,752 | \$ 3,603 | \$ 1,707 |
| Supplemental cash flow information: | | | |
| Interest payments | \$ 10,269 | \$ 9,256 | \$ 5,110 |
| Income tax payments, net of refunds | \$ 2,402 | \$ 1,414 | \$ 1,315 |
| ASC 326 Opening Balance Sheet Adjustment | \$ 3,278 | \$ — | \$ — |
| Recognition of operating lease liabilities and right-of-use assets | \$ 4,877 | \$ 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 loss 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 gain 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 |
| Net loss | | — | (2,787) | — | (2,787) |
| CECL opening balance sheet adjustment, net of tax | — | — | (3,278) | — | (3,278) |
| Unrealized loss on hedging instruments, net of tax | — | — | — | (118) | (118) |
| Share-based compensation | — | (444) | — | — | (444) |
| Balances, June 29, 2024 | 10,762 | \$ 47,284 | \$ 76,921 | \$ (215) | \$ 123,990 |

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). 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.

Liquidity

Historically, due to the timing between the procurement of raw materials, production cycle and payment from our customers, we have financed operations and met our capital expenditure requirements primarily through cash flows provided by operations and borrowings under our credit facilities. We generated operating and net income of \$6.8 million and \$(2.8) million respectively, during the 12-month period ended June 29, 2024 and have positive working capital of \$184.2 million as of June 29, 2024. 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 during fiscal year 2024. Based on current projections, we anticipate generating cash from operations as revenue increases in the first quarter of fiscal year 2025.

As of June 29, 2024, we have limited additional borrowing capacity on our credit facility, which matures on December 3, 2025. 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 credit losses, 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 Credit Losses

The Company evaluates the collectability of accounts receivable and records an allowance for credit losses, 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, and a general allowance is calculated and applied to remaining receivables based on the Company's historical collection experience. 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 costs related to the services are incurred, which approximates proportional performance of the service. This method is used because management considers it to be the best available measure of progress on the contracts. Revenue from scrap and excess inventory sales is recognized at the point-in-time of scrap at the customers direction, or, if applicable, shipment of the material to the customer.

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 2005 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 June 29, 2024, the Company had outstanding foreign currency forward contracts with a notional amount of \$12.5 million.

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 June 29, 2024, July 1, 2023, and July 2, 2022, reasonably approximate their fair value. The Company had an outstanding balance on its lines of credit of \$112.6 million as of June 29, 2024, \$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 its foreign term loan of MXN40.5 million (\$2.2 million USD) as of June 29, 2024, MXN58.2 million (\$3.4 million USD) as of July 1, 2023, and MXN93.3 million (\$4.6 million USD) as of July 2, 2022 with a carrying value that reasonably approximates the fair value. The domestic equipment term loans were \$5.8 million as of June 29, 2024, \$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

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

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07), which requires public entities to disclose information about their reportable segments' oversight and significant expenses on an interim and annual basis. The ASU is effective for the annual reporting period beginning in fiscal year 2025 and for interim periods beginning in fiscal year 2026. Early adoption is permitted. The Company is currently evaluating the guidance and its impact to the financial statements.

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

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

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

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and also issued subsequent amendments to the initial guidance: ASU 2018-19, ASU 2019-04 and ASU 2019-05, which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance was effective for the Company beginning in the first quarter of fiscal year 2024. The Company adopted this amendment as of the effective date of July 2, 2023, and the impacts are disclosed in opening retained earnings on the Consolidated Statement of Shareholders' Equity. Refer to further discussion in Note 15 - "Restatement of Interim Financial Information"

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 2024 and 2023 ended on June 29, 2024 and July 1, 2023, respectively. Fiscal years 2022, 2023 and 2024 were 52 week years.

2. INVENTORIES

Inventory as of June 29, 2024 is \$105.1 million compared to \$137.9 million as of July 1, 2023 and \$155.7 million as of July 2, 2022. The components of inventories consist of the following (in thousands):

| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
|----------------------------|-------------------|-------------------|-------------------|
| | | (in thousands) | |
| Raw materials and supplies | \$ 80,570 | \$ 109,078 | \$ 131,980 |
| Work-in-process | 24,529 | 28,833 | 23,761 |
| Inventories | <u>\$ 105,099</u> | <u>\$ 137,911</u> | <u>\$ 155,741</u> |

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

| | Life (in years) | June 29, 2024 | July 1, 2023 | July 2, 2022 |
|-------------------------------------|--------------------|------------------|------------------|------------------|
| | | | (in thousands) | |
| Land | — | \$ 4,034 | \$ 4,034 | \$ 4,034 |
| Buildings and improvements | 3 to 30 | 27,821 | 26,459 | 25,841 |
| Equipment | 1 to 10 | 80,049 | 77,823 | 71,180 |
| Furniture and fixtures | 3 to 5 | 6,660 | 5,418 | 5,286 |
| Total property, plant and equipment | | 118,564 | 113,734 | 106,341 |
| Accumulated depreciation | | (89,758) | (84,864) | (80,329) |
| Property, plant and equipment, net | | <u>\$ 28,806</u> | <u>\$ 28,870</u> | <u>\$ 26,012</u> |

| | Fiscal Year Ended | | |
|----------------------|-------------------|----------------|--------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| | | (in thousands) | |
| Depreciation expense | \$ 5,270 | \$ 4,700 | \$ 4,940 |

4. LONG-TERM DEBT

Debt consists of the following:

| | Maturity Date | Interest Rate | June 29, 2024 | July 1, 2023 | July 2, 2022 |
|--|--------------------|---------------|----------------|--------------|--------------|
| | | | (in thousands) | | |
| Asset-based senior secured revolving credit facility (1) | December 3, 2025 | 9.5% | \$ 107,149 | \$ 115,395 | \$ 95,077 |
| Foreign line of credit (2) | December 11, 2026 | 14.0% | 5,403 | — | — |
| Domestic term loan - Balboa (3) | September 19, 2030 | 6% to 8% | 4,535 | 4,148 | — |
| Foreign term loan - Banorte (4) | April 24, 2026 | 5.5% | \$ 2,200 | \$ 3,400 | \$ 4,600 |
| Domestic term loan - Bank of America (5) | August 14, 2025 | 4.9% | \$ 1,277 | \$ 2,316 | \$ 3,305 |
| Total debt | | | 120,564 | 125,259 | 102,982 |
| Less: current portion of debt | | | (3,123) | (3,138) | (2,190) |
| Less: unamortized financing costs | | | (1,059) | (590) | (499) |
| Long-term debt, net | | | \$ 116,382 | \$ 121,531 | \$ 100,293 |

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

On September 3, 2021, the Company entered into an amendment to the Loan Agreement, which increased the availability under the credit facility to \$120 million, subject to the Company’s borrowing base, and set the maturity date to September 3, 2026. On August 26, 2022, the Company entered into a third amendment to the Loan Agreement, which removed the cash flow leverage ratio covenant and increased the interest rate by 25 basis points. On May 7, 2024, the Company entered into a fourth amendment to the Loan Agreement, effective as of March 29, 2024, which amendment modified debt covenant provisions to reduce the minimum requirement for the fixed charge coverage ratio from 1.25:1.00 to 1.00:1.00 as of March 30, 2024 and allow for the add back of severance expenses incurred during the quarter ended March 30, 2024. The minimum requirement for the fixed charge coverage ratio will increase as follows: 1.05:1.00 on July 27, 2024, 1.15:1.00 on October 26, 2024, 1.20:1.00 on January 25, 2025, and 1.25:1.00 on and after March 29, 2025. In addition, the amendment increased the interest rate by 100 basis points beginning on March 29, 2024 and moved forward the maturity date by one year to September 3, 2025. On September 27, 2024, the Company entered into a fifth amendment to the Loan Agreement, which extended the maturity date by three months to December 3, 2025. On October 9, 2024, the Company entered into a sixth amendment to the Loan Agreement. The Amendment waived existing events of default relating to non-compliance with (a) prescribed fixed charge coverage ratios for the periods ending June 29, 2024 and July 27, 2024 and (b) delivering audited financial statements within 90 days of the Company's fiscal year-end. The Amendment increased the interest rate by 50 basis points beginning on October 9, 2024 so that the applicable margin on base rate loans is 3.50% and term SOFR loans is 4.50%. In addition, the Amendment increased the availability block, which reduces the calculated borrowing base under the Loan Agreement, from \$8 million to \$10 million, with further increases to \$11 million and \$12 million to be effective on December 31, 2024 and March 31, 2025, respectively.

As of June 29, 2024, the Company had an outstanding balance under the asset-based revolving credit facility of \$107.1 million, \$0.3 million in outstanding letters of credit and \$12.9 million available for future borrowings.

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.

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

than zero), plus the applicable interest margin for base rate loans; or (ii) SOFR rate for an applicable interest period, plus the applicable interest margin for SOFR rate loans. As modified by the sixth amendment to the Loan Agreement, the applicable interest margin on: (x) base rate loans is 3.50% and (y) SOFR rate loans is 4.50%, resetting on a quarterly basis. If there is an event of default that is not waived under the Loan Agreement, all loans and other obligations will bear interest at a rate of an additional 2.00% on the otherwise applicable interest rates. In addition to interest charges, the Company is required to pay a fee of 0.25% per annum on the unused portion of the Credit Facility, monthly in arrears.

As of June 29, 2024, the interest rate on the asset-based revolving credit facility with Bank of America was 9.46%.

(2) On December 11, 2023, the Company entered into a loan agreement in Mexican peso with Banorte Financial Group. The agreement provides for a three-year secured line of credit up to MXN100 million, subject to the Company's borrowing base, maturing on December 11, 2026. The credit facility bears interest at Iterbancario de Equilibrio Interest Rate plus 2.75%, and as of June 29, 2024, was 13.99%. As of June 29, 2024, the Company had an outstanding balance under the revolving credit facility of MXN99 million (\$5.4 USD) and MXN1 million (\$0.1 million USD) available for future borrowings.

(3) On September 19, 2023, the Company entered into a \$1.1 million equipment financing agreement with Ameris Bank dba Balboa Capital ("Balboa Capital"). Combining with other equipment financing agreements entered in the third quarter of fiscal year 2023, a total of \$5.5 million relates to the Company's existing manufacturing equipment that bears an interest rate range of 6% - 8% and matures in the first quarter of fiscal 2030. Under these loan agreements, equal monthly payments of \$94,000 commenced in the fourth quarter of fiscal year 2024 and will continue through the maturity of the equipment financing facility in the first quarter of fiscal 2030. The Company had an outstanding balance \$4.5 million as of June 29, 2024.

(4) On November 24, 2020, the Company entered into a \$6.0 million equipment financing facility related to the Company's existing manufacturing equipment that bears interest at 5.52% and matures on April 24, 2026. Under this loan agreement, equal monthly payments of \$100,000 commenced on May 24, 2021 and will continue through the maturity of the equipment financing facility on April 24, 2026. As of June 29, 2024, the Company had an outstanding balance of \$2.2 million. As of July 1, 2023, the Company had an outstanding balance of \$3.4 million. As of July 2, 2022, the Company had an outstanding balance of \$4.6 million.

(5) On August 14, 2020, the Company entered into a \$5.0 million equipment financing facility with Bank of America relating to the Company's existing U.S. manufacturing equipment that bears interest at 4.85% and matures on August 14, 2025. Under this loan agreement, equal monthly payments of approximately \$94,000 commenced on September 14, 2020 and will continue through the maturity of the equipment financing facility on August 14, 2025. As of June 29, 2024, the Company had an outstanding balance of \$1.3 million. 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.

Debt maturities as of June 29, 2024 for the next five years are as follows (in thousands):

| Fiscal Years Ending | Amount |
|---|-------------------|
| 2025 | \$ 3,123 |
| 2026 | 109,230 |
| 2027 | 6,363 |
| 2028 | 1,032 |
| 2029 | 816 |
| 2030 - Thereafter | — |
| Total debt | 120,564 |
| Unamortized financing costs | (1,059) |
| Long-term debt, net of unamortized financing costs | \$ 119,505 |

The Company must comply with certain financial covenants, including a fixed charge coverage 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. As of June 29, 2024, The

Company was not in compliance with the fixed coverage charge ratio. On October 9, 2024, the Company executed a sixth amendment to the Loan Agreement which waived existing events of default as of that date.

5. INCOME TAXES

Income tax benefit consists of the following:

| | Fiscal Year Ended | | |
|--|-------------------|--------------|--------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| | (in thousands) | | |
| Current income tax provision (benefit): | | | |
| United States | \$ 263 | \$ 998 | \$ (2,179) |
| Foreign | 1,451 | 2,134 | 2,012 |
| | 1,714 | 3,132 | (167) |
| Deferred income tax provision (benefit): | | | |
| United States | (4,322) | (2,130) | 443 |
| Foreign | 208 | 141 | 38 |
| | (4,114) | (1,989) | 481 |
| Total income tax provision | \$ (2,400) | \$ 1,143 | \$ 314 |

The Company has gross tax credit carryforwards of approximately \$10.4 million at June 29, 2024 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.

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 continuously evaluates impact of tax law and regulatory changes. The Company noted no changes during the current quarter or fiscal year that would have a material impact on its provision for income taxes or overall income tax position.

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.

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 \$8.0 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 | | |
|---|-------------------|-----------------|---------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| | (in thousands) | | |
| Federal income tax provision at statutory rates | \$ (1,089) | \$ 1,322 | \$ 775 |
| State income taxes, net of federal tax effect | (145) | (25) | 86 |
| Foreign tax rate differences | (71) | 137 | 336 |
| Net operating loss carryback | — | — | (593) |
| Effect of income tax credits | (929) | (1,020) | (920) |
| Previously unrecognized tax benefits | (232) | (75) | 146 |
| Inflation adjustments | 132 | 118 | 178 |
| Tax penalties & interest included in tax provision | — | — | 179 |
| Global Intangible Low-Taxed Income (GILTI) tax | 53 | 33 | 59 |
| Provision to return reconciliation | (68) | 52 | (91) |
| Equity compensation shortfall | 51 | 73 | 104 |
| Foreign Exchange Gains/Losses Unrealized for Tax Purposes | (126) | 277 | 23 |
| Other | 24 | 251 | 32 |
| Income tax provision (benefit) | <u>\$ (2,400)</u> | <u>\$ 1,143</u> | <u>\$ 314</u> |

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

| | Fiscal Year Ended | | |
|----------------------------|-------------------|-----------------|-----------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| | (in thousands) | | |
| Domestic | \$ (13,539) | \$ (1,086) | \$ (2,890) |
| Foreign | 8,352 | 7,386 | 6,581 |
| Income before income taxes | <u>\$ (5,187)</u> | <u>\$ 6,300</u> | <u>\$ 3,691</u> |

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

| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
|---|----------------|--------------|--------------|
| | (in thousands) | | |
| Deferred tax assets: | | | |
| Tax credit carryforwards, net | \$ 7,544 | \$ 6,812 | \$ 7,990 |
| Net operating loss | — | — | 486 |
| Inventory | 252 | 267 | 247 |
| Identifiable intangibles | 247 | 308 | 370 |
| Accruals | 2,340 | 2,421 | 2,406 |
| Property, plant, and equipment | — | 1,328 | 1,200 |
| ASC 606 deferred costs | 3,852 | 4,802 | 4,216 |
| Lease liabilities | 3,542 | 3,775 | 3,671 |
| Interest expense deduction carryforward | 2,765 | 977 | 580 |
| Research and development expenses | 6,042 | 3,860 | — |
| Other | 505 | 271 | 465 |
| Deferred income tax assets | \$ 27,089 | \$ 24,821 | \$ 21,631 |
| Deferred tax liabilities: | | | |
| Accrued withholding tax - unremitted earnings | (796) | (754) | (754) |
| Property, plant, and equipment | (127) | — | — |
| Right-of-use assets | (3,609) | (3,857) | (3,663) |
| Tax capital lease liabilities | (764) | (2,832) | (2,385) |
| ASC 606 accelerated revenue | (3,882) | (4,599) | (3,736) |
| Other | (798) | (799) | (1,102) |
| Deferred income tax liabilities | \$ (9,976) | \$ (12,841) | \$ (11,640) |
| Net deferred income tax assets | \$ 17,113 | \$ 11,980 | \$ 9,991 |
| Balance sheet caption reported in: | | | |
| Long-term deferred income tax asset | \$ 17,376 | \$ 12,254 | \$ 10,055 |
| Long-term deferred income tax liability | (263) | (274) | (64) |
| Net deferred income tax asset | \$ 17,113 | \$ 11,980 | \$ 9,991 |

Uncertain Tax Positions:

The Company has R&D tax credits that approximate \$10.4 million that have 20-year carryforwards before expiring. The Company's R&D tax credits expire in various fiscal years from 2033 to 2044.

As of June 29, 2024, the Company had unrecognized tax benefits of \$2.9 million related to its gross R&D tax credits. The unrecognized tax benefits relate to certain R&D tax credits generated from 2005 to 2024.

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

| | Fiscal Year Ended | | |
|--|-------------------|--------------|--------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| | (in thousands) | | |
| Beginning Balance | \$ 3,028 | \$ 2,998 | \$ 4,863 |
| Additions based on tax positions related to the current year | 110 | 120 | 286 |
| Adjustment to prior year tax positions & amended tax returns | (7) | (15) | (2,296) |
| Lapse of statute of limitations | (232) | (75) | 145 |
| Ending Balance | \$ 2,899 | \$ 3,028 | \$ 2,998 |

The \$2.9 million of unrecognized tax benefits at the end of fiscal year 2024, 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. 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) | | |
|--|--|--------------|--------------|
| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| Net income (loss) | \$ (2,787) | \$ 5,157 | \$ 3,377 |
| Weighted average shares outstanding—basic | 10,762 | 10,762 | 10,762 |
| Effect of dilutive common stock awards | — | 176 | 301 |
| Weighted average shares outstanding—diluted | 10,762 | 10,938 | 11,063 |
| Net income (loss) per share—basic | \$ (0.26) | \$ 0.48 | \$ 0.31 |
| Net income (loss) per share—diluted | \$ (0.26) | \$ 0.47 | \$ 0.31 |
| Antidilutive SARs not included in diluted earnings per share | 515 | 376 | 619 |

7. STOCK-BASED COMPENSATION 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 based on the performance metric 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 June 29, 2024, 136,250 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 June 29, 2024, 136,250 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 |

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.

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 June 29, 2024, July 1, 2023 and July 2, 2022 was \$(0.4) million, \$0.3 million and \$0.3 million, respectively. The fiscal year 2024 amount relates to reversal of prior expense for which performance metrics were not ultimately attained.

There were no SARs exercised during fiscal year 2024, fiscal year 2023 and fiscal year 2022.

As of June 29, 2024, total unrecognized compensation expense related to nonvested share-based compensation arrangements was approximately \$0.1 million. This expense is expected to be recognized over a weighted-average period of 1.0 years.

The following table summarizes the Company's SARs activity from July 3, 2021 through June 29, 2024:

| | 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 |
| SARs granted | (165,000) | 165,000 | | \$ 7.17 | |
| SARs expired | 197,500 | (197,500) | | \$ 8.17 | |
| Balances, July 2, 2022 | 720,584 | 758,750 | \$ — | \$ 6.89 | 2.1 |
| SARs granted | (145,000) | 145,000 | | \$ 5.10 | |
| SARs forfeited | 90,000 | (90,000) | | \$ 6.55 | |
| SARs expired | 187,500 | (187,500) | | \$ 7.26 | |
| Balances, July 1, 2023 | 853,084 | 626,250 | \$ — | \$ 6.41 | 2.2 |
| SARs forfeited | 137,500 | (137,500) | | \$ 6.90 | |
| SARs expired | 101,250 | (101,250) | | \$ 8.17 | |
| Balances, June 29, 2024 | 1,091,834 | 387,500 | \$ — | \$ 5.78 | 1.8 |
| Exercisable at June 29, 2024 | | 115,000 | \$ — | \$ 4.93 | 0.1 |

The Company has defined contribution plans available to U.S. employees who have attained age 21. Company contributions to the plans were approximately \$1.3 million, \$1.1 million and \$0.9 million during fiscal years 2024, 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 June 29, 2024, July 1, 2023, and July 2, 2022 the reserve for warranty costs was approximately \$164,000, \$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 June 29, 2024, the Company had outstanding foreign currency forward contracts with a total notional amount of \$12.5 million. The maturity dates for these contracts extend through December 2024. For the three months ended June 29, 2024, the Company entered into \$12.5 million of foreign currency forward contracts and did not settle any of contracts. During the same period of the previous year, the Company did not enter or settle any foreign currency forward contracts.

For the twelve months ended June 29, 2024, the Company entered into \$19.0 million of foreign currency forward contracts and settled \$6.5 million of contracts. During the same period of the previous year, the Company did not enter into or settle any foreign currency forward contracts.

On November 6, 2019, the Company entered into an interest rate swap contract with an effective date of November 6, 2019 and a termination date of September 30, 2022, related to the borrowings outstanding under the term loan with Wells Fargo Bank. This interest rate swap contract was terminated on August 14, 2020 when the Company entered into 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 was 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 was amortized to interest expense over the original term of the swap.

The following table summarizes the fair value of the derivative instruments in the Consolidated Balance Sheets as of June 29, 2024, July 1, 2023 and July 2, 2022 (in thousands):

| Derivatives designated as hedging instruments under Subtopic 815-20 | Balance Sheet Location | Fair Value | | |
|---|---------------------------|---------------|--------------|--------------|
| | | June 29, 2024 | July 1, 2023 | July 2, 2022 |
| Foreign currency forward contracts | Other current liabilities | \$277 | \$ — | \$ — |

The following tables summarize the gain (loss) on derivative instruments, net of tax, on the Consolidated Statements of Operations for the fiscal year 2024, 2023 and 2022, respectively (in thousands):

| Derivatives Designated as Hedging Instruments | Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | AOCI Balance as of July 1, 2023 | Effective Portion Recorded In AOCI | Effective Portion Reclassified From AOCI Into Income | AOCI Balance as of June 29, 2024 |
|---|---|---------------------------------|------------------------------------|--|----------------------------------|
| Forward contracts | Cost of sales | — | 287 | (72) | 215 |
| Interest rate swap | Interest expense | (97) | — | 97 | — |
| Total | | <u>\$ (97)</u> | <u>287</u> | <u>25</u> | <u>215</u> |

| 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 | | <u>\$ (425)</u> | <u>\$ —</u> | <u>\$ 328</u> | <u>\$ (97)</u> |

| Derivatives Designated as Hedging Instruments | Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | AOCI Balance as of June 28, 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 | | <u>\$ 2,072</u> | <u>\$ 950</u> | <u>\$ (3,447)</u> | <u>\$ (425)</u> |

As of June 29, 2024, the Company does not have any foreign exchange contracts with credit-risk-related contingent features. The Company is subject to the risk of fluctuating interest rates from our line of credit and foreign currency risk resulting from our China operations. The Company does not currently manage these risk exposures by using derivative instruments.

10. 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 June 29, 2024, 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 June 29, 2024, July 1, 2023, and July 2, 2022 and 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, and equipment loans. These borrowings bear interest at SOFR plus 4.5% 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 June 29, 2024, 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 June 29, 2024, 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 June 29, 2024, July 1, 2023, and July 2, 2022 contract manufacturing sales and services were \$566.9 million, \$605.3 million, and \$544.2 million respectively.

Geographic Areas

Net sales and long-lived assets (property, plant, and equipment) by geographic area for the years ended and as of June 29, 2024, 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) | | |
|-----------------------|-------------------------------------|-------------------|-------------------|
| | 2024 | Restated 2023 | Restated 2022 |
| Geographic net sales: | | | |
| Domestic (U.S.) | \$ 439,334 | \$ 518,819 | \$ 450,380 |
| Foreign | 127,608 | 86,496 | 93,797 |
| Total | <u>\$ 566,942</u> | <u>\$ 605,315</u> | <u>\$ 544,177</u> |
| Long-lived assets: | | | |
| United States | \$ 24,497 | \$ 21,799 | \$ 14,440 |
| Mexico | 15,531 | 18,203 | 22,473 |
| Vietnam | 3,780 | 4,547 | 5,228 |
| China | 414 | 523 | 601 |
| Total | <u>\$ 44,222</u> | <u>\$ 45,072</u> | <u>\$ 42,742</u> |

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

| | Fiscal Year Ended | | |
|--|-------------------|-------------|-------------|
| | 2024 | 2023 | 2022 |
| United States | 77% | 86% | 83% |
| China | 22% | 13% | 15% |
| Other foreign countries ^(a) | 1% | 1% | 2% |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

(a) No other individual foreign country accounted for 10% or more of the foreign sales in fiscal years 2024 or 2023.

Significant Customers

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

| | Percentage of Net Sales Fiscal Year | | | Percentage of Trade Receivables Fiscal Year | | |
|------------|--|------|------|--|------|------|
| | 2024 | 2023 | 2022 | 2024 | 2023 | 2022 |
| Customer A | 20% | 12% | 12 % | 21% | 16% | 13% |
| Customer B | * | * | 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 costs related to the services are incurred, which approximates proportional performance of the service. This method is used because management considers it to be the best available measure of progress on the contracts. Revenue from scrap and excess inventory sales is recognized at the point-in-time of scrap at the customers direction, or, if applicable, shipment of the material to the customer.

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 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 2024, 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 June 29, 2024 (in thousands):

| | Contract Assets |
|---------------------------------|------------------------|
| Beginning balance, July 1, 2023 | \$ 29,925 |
| Revenue recognized | 497,348 |
| Amounts collected or invoiced | (506,023) |
| Ending balance, June 29, 2024 | <u>\$ 21,250</u> |

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 | 590,624 |
| Amounts collected or invoiced | (582,673) |
| 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 | 528,204 |
| Amounts collected or invoiced | (531,011) |
| 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 June 29, 2024, the twelve months ended July 1, 2023, and the twelve months ended July 2, 2022 (in thousands):

| | Revenue | | |
|--------------------|----------------------|--------------------------------|--------------------------------|
| Recognition | June 29, 2024 | July 1, 2023 (Restated) | July 2, 2022 (Restated) |
| Over-Time | \$ 497,348 | \$ 590,624 | \$ 528,193 |
| Point-in-Time | 69,594 | 14,691 | 15,984 |
| Total | <u>\$ 566,942</u> | <u>\$ 605,315</u> | <u>\$ 544,177</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.

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 4.0%. The weighted average discount rate is disclosed in the tables below.

The components of lease cost were as follows as of June 29, 2024, July 1, 2023 and July 2, 2022 (in thousands):

| Lease cost | Classification | Year Ended June 29, 2024 | Year Ended July 1, 2023 | Year Ended July 2, 2022 |
|-------------------------|--|-----------------------------|----------------------------|----------------------------|
| Operating lease cost | Cost of sales | \$ 4,814 | \$ 4,519 | \$ 6,442 |
| Operating lease cost | Selling, general and administrative expenses | \$ 734 | \$ 737 | \$ 929 |
| Financing lease cost | Cost of sales | \$ 4,865 | \$ 3,891 | \$ 2,054 |
| Financing lease cost | Selling, general and administrative expenses | \$ 206 | \$ 161 | \$ 64 |
| Total lease cost | | <u>\$ 10,619</u> | <u>\$ 9,308</u> | <u>\$ 9,489</u> |
| Fixed lease cost | | \$ 6,169 | \$ 8,171 | \$ 7,941 |
| Short-term lease cost | | 4,450 | 1,137 | 1,548 |
| Total lease cost | | <u>\$ 10,619</u> | <u>\$ 9,308</u> | <u>\$ 9,489</u> |

Amounts reported in the Consolidated Balance Sheet as of June 29, 2024, July 1, 2023 and July 2, 2022 were (in thousands, except weighted average lease term and discount rate):

| | June 29, 2024 | July 1, 2023 | July 2, 2022 |
|---|---------------|--------------|--------------|
| Operating Leases: | | | |
| Operating lease right of use assets | \$ 15,416 | \$ 16,202 | \$ 16,731 |
| Operating lease liabilities (1) | \$ 15,416 | \$ 16,202 | \$ 16,731 |
| Weighted-average remaining lease term (in years) | | | |
| Operating leases | 3.97 | 4.55 | 5.28 |
| Weighted-average discount rate | | | |
| Operating leases | 4.00% | 4.00% | 4.00 % |
| Financing Leases (2): | | | |
| Financing lease right of use assets | \$ 3,569 | \$ 9,718 | \$ 12,464 |
| Financing lease liabilities | \$ 2,128 | \$ 8,278 | \$ 11,211 |
| Weighted-average remaining lease term (in years) | | | |
| Financing leases | 1.06 | 1.89 | 2.56 |
| Weighted-average discount rate | | | |
| Financing leases | 11.18% | 9.96% | 8.82 % |

(1) The current portion of the total operating lease liabilities of \$5.1 million is classified under *Other Current Liabilities*, resulting in \$10.3 million classified under *Operating Lease Liabilities* in the *Long-term Liabilities* section of the condensed consolidated balance sheet.

(2) The total finance lease right of use assets of \$3.6 million is classified under *Other Long-term Assets*. The current portion of the total finance lease liabilities of \$1.9 million is classified under *Other Current Liabilities*, resulting in \$0.2 million classified in *Other Long-term Liabilities* section of the condensed consolidated balance sheet.

Future lease payments under non-cancellable leases as of June 29, 2024 are as follows (in thousands):

| Fiscal Years Ending | Operating Leases | Finance Leases |
|-----------------------------------|------------------|----------------|
| 2025 | \$ 5,104 | \$ 1,909 |
| 2026 | 4,147 | 501 |
| 2027 | 3,238 | — |
| 2028 | 2,281 | — |
| 2029 | 1,051 | — |
| Thereafter | 822 | — |
| Total undiscounted lease payments | 16,643 | 2,410 |
| Less: present value discount | (1,227) | (282) |
| Total lease liabilities | \$ 15,416 | \$ 2,128 |

14. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

In connection with the preparation of the Company's consolidated financial statements as of and for the year ended June 29, 2024, the Company concluded that cost recovery of material price variances was not being consistently recorded across its facilities. Material price variance occurs when the price the Company pays for materials exceeds the price quoted to customers, and the Company typically recovers the excess cost from customers through a sales price adjustment. Per Company policy, this cost recovery should be recorded as net sales when inventory enters the production process, however, certain of the Company's facilities were recording the cost recovery as a reduction to cost of sales. These errors resulted in an understatement of both net sales and cost of sales for the years ended July 1, 2023 and July 2, 2022 (the "impacted annual periods"). As a result, the Company has restated its consolidated statements of operations for the impacted annual periods presented herein. The nature of the restatement adjustments shown below and their impact on the previously issued consolidated statements of operations is to increase net sales and increase cost of sales to appropriately reflect these transactions as sales price adjustments.

| CORRECTED CONSOLIDATED STATEMENT OF OPERATIONS (in thousands, except per share information) | Fiscal Year Ended 7/1/2023 | | |
|---|----------------------------|-------------|-------------|
| | As previously reported | Adjustments | As restated |
| Net sales | \$ 588,135 | \$ 17,180 | \$ 605,315 |
| Cost of sales | 540,663 | 17,180 | 557,843 |
| Gross profit | 47,472 | — | 47,472 |
| Research, development and engineering expenses | 9,735 | — | 9,735 |
| Selling, general and administrative expenses | 25,715 | — | 25,715 |
| Gain on insurance proceeds, net of losses | (4,301) | — | (4,301) |
| Total operating expenses | 31,149 | — | 31,149 |
| Operating income | 16,323 | — | 16,323 |
| Interest expense, net | 10,023 | — | 10,023 |
| Income before income taxes | 6,300 | — | 6,300 |
| Income tax provision | 1,143 | — | 1,143 |
| Net income | \$ 5,157 | \$ — | \$ 5,157 |
| Net income per share — Basic | \$ 0.48 | \$ — | \$ 0.48 |
| Weighted average shares outstanding — Basic | 10,762 | — | 10,762 |
| Net income per share — Diluted | \$ 0.47 | \$ — | \$ 0.47 |
| Weighted average shares outstanding — Diluted | 10,938 | — | 10,938 |

Fiscal Year Ended 7/2/2022

| CORRECTED CONSOLIDATED STATEMENT OF OPERATIONS (in thousands, except per share information) | Fiscal Year Ended 7/2/2022 | | |
|---|----------------------------|-------------|-------------|
| | As previously reported | Adjustments | As restated |
| Net sales | \$ 531,815 | \$ 12,362 | \$ 544,177 |
| Cost of sales | 488,601 | 12,362 | 500,963 |
| Gross profit | 43,214 | — | 43,214 |
| Research, development and engineering expenses | 9,821 | — | 9,821 |
| Selling, general and administrative expenses | 24,598 | — | 24,598 |
| Gain on insurance proceeds, net of losses | — | — | — |
| Total operating expenses | 34,419 | — | 34,419 |
| Operating income | 8,795 | — | 8,795 |
| Interest expense, net | 5,104 | — | 5,104 |
| Income before income taxes | 3,691 | — | 3,691 |
| Income tax provision | 314 | — | 314 |
| Net income | \$ 3,377 | \$ — | \$ 3,377 |
| Net income per share — Basic | \$ 0.31 | \$ — | \$ 0.31 |
| Weighted average shares outstanding — Basic | 10,762 | — | 10,762 |
| Net income per share — Diluted | \$ 0.31 | \$ — | \$ 0.31 |
| Weighted average shares outstanding — Diluted | 11,063 | — | 11,063 |

All referenced amounts for prior periods in these financial statements and the notes herein reflect the balances and amounts on a restated basis.

15. RESTATEMENT AND REVISION OF INTERIM FINANCIAL INFORMATION

Restatement of Unaudited Consolidated Statements of Operations

In connection with the preparation of the Company's consolidated financial statements as of and for the year ended June 29, 2024, the Company concluded that cost recovery of material price variances was not being consistently recorded across its facilities. Material price variance occurs when the price the Company pays for materials exceeds the price quoted to customers, and the Company typically recovers the excess cost from customers through a sales price adjustment. Per Company policy, this cost recovery should be recorded as net sales when inventory enters the production process, however, certain of the Company's facilities were recording the cost recovery as a reduction to cost of sales. These errors resulted in an understatement of both net revenues and cost of sales for the quarters ended March 30, 2024, December 30, 2023, September 30, 2023, April 1, 2023, December 31, 2022, October 1, 2022, April 2, 2022, January 1, 2022, and October 2, 2022 (the "impacted quarterly periods"). As a result of these errors, the Company has restated its unaudited consolidated statements of operations for the impacted quarterly periods in the following tables. The unaudited consolidated balance sheets, statements of comprehensive income, shareholders' equity and cash flows for the impacted quarters were not impacted by the errors noted above and have not been restated; provided, that the unaudited consolidated balance sheets as of March 30, 2024, December 30, 2023, September 30, 2023 have been revised as a result of error related to the adoption of ASU 326 as discussed below under "Revision of Unaudited Consolidated Balance Sheets."

| CORRECTED CONSOLIDATED STATEMENT OF OPERATIONS | Interim periods - fiscal year 2024 (in thousands, except per share information) | | | | | |
|---|---|---|--|-------------------------------|--------------------------------|--|
| | As restated - three months ended 9/30/23 | As restated - three months ended 12/30/23 | As restated - three months ended 3/30/24 | Three months ended 6/29/24 | Twelve months ended 6/29/24 | |
| Net sales | \$ 150,112 <i>[1]</i> | \$ 147,847 <i>[2]</i> | \$ 142,427 <i>[3]</i> | \$ 126,556 | \$ 566,942 | |
| Cost of sales | 139,250 <i>[1]</i> | 136,084 <i>[2]</i> | 134,346 <i>[3]</i> | 117,383 | 527,063 | |
| Gross profit | 10,862 | 11,763 | 8,081 | 9,173 | 39,879 | |
| Research, development and engineering expenses | 2,241 | 1,758 | 2,234 | 2,100 | 8,333 | |
| Selling, general and administrative expenses | 5,784 | 6,057 | 6,422 | 6,956 | 25,219 | |
| Gain on insurance proceeds, net of losses | (431) | — | — | — | (431) | |
| Total operating expenses | 7,594 | 7,815 | 8,656 | 9,056 | 33,121 | |
| Operating income | 3,268 | 3,948 | (575) | 117 | 6,758 | |
| Interest expense, net | 3,011 | 2,961 | 2,800 | 3,173 | 11,945 | |
| Income (loss) before income taxes | 257 | 987 | (3,375) | (3,056) | (5,187) | |
| Income tax provision (benefit) | (78) | (97) | (1,154) | (1,071) | (2,400) | |
| Net income (loss) | \$ 335 | \$ 1,084 | \$ (2,221) | \$ (1,985) | \$ (2,787) | |
| Net income (loss) per share — Basic | \$ 0.03 | \$ 0.10 | \$ (0.21) | \$ (0.18) | \$ (0.26) | |
| Weighted average shares outstanding — Basic | 10,762 | 10,762 | 10,762 | 10,762 | 10,762 | |
| Net income (loss) per share — Diluted | \$ 0.03 | \$ 0.10 | \$ (0.21) | \$ (0.18) | \$ (0.26) | |
| Weighted average shares outstanding — Diluted | 11,003 | 10,889 | 10,762 | 10,762 | 10,762 | |

[1] - Includes an increase of \$2,349 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[2] - Includes an increase of \$2,430 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[3] - Includes an increase of \$1,900 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

| CORRECTED CONSOLIDATED STATEMENT OF OPERATIONS | Interim periods - fiscal year 2023 (in thousands, except per share information) | | | | |
|---|---|---|---|---|--|
| | As restated - three months ended 10/1/22 | As restated - three months ended 12/31/22 | As restated - three months ended 4/1/23 | As restated - three months ended 7/1/23 | As restated - twelve months ended 7/1/23 |
| Net sales | \$ 140,971 [1] | \$ 127,592 [2] | \$ 167,758 [3] | \$ 168,994 [4] | \$ 605,315 |
| Cost of sales | 130,592 [1] | 118,672 [2] | 153,482 [3] | 155,096 [4] | 557,843 |
| Gross profit | 10,379 | 8,920 | 14,276 | 13,898 | 47,472 |
| Research, development and engineering expenses | 2,296 | 2,287 | 2,580 | 2,573 | 9,735 |
| Selling, general and administrative expenses | 5,656 | 5,735 | 6,961 | 7,363 | 25,715 |
| Gain on insurance proceeds, net of losses | (934) | (2,710) | (396) | (261) | (4,301) |
| Total operating expenses | 7,018 | 5,312 | 9,145 | 9,675 | 31,149 |
| Operating income | 3,361 | 3,608 | 5,131 | 4,223 | 16,323 |
| Interest expense, net | 1,887 | 2,507 | 2,688 | 2,941 | 10,023 |
| Income before income taxes | 1,474 | 1,101 | 2,443 | 1,282 | 6,300 |
| Income tax provision | 322 | 134 | 467 | 220 | 1,143 |
| Net income | \$ 1,152 | \$ 967 | \$ 1,976 | \$ 1,062 | \$ 5,157 |
| Net income per share — Basic | \$ 0.11 | \$ 0.09 | \$ 0.18 | \$ 0.10 | \$ 0.48 |
| Weighted average shares outstanding — Basic | 10,762 | 10,762 | 10,762 | 10,762 | 10,762 |
| Net income per share — Diluted | \$ 0.11 | \$ 0.09 | \$ 0.18 | \$ 0.10 | \$ 0.47 |
| Weighted average shares outstanding — Diluted | 10,832 | 10,832 | 10,865 | 10,996 | 10,938 |

[1] - Includes an increase of \$3,708 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[2] - Includes an increase of \$3,884 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[3] - Includes an increase of \$3,205 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[4] - Includes an increase of \$6,384 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

| CORRECTED CONSOLIDATED STATEMENT OF OPERATIONS | Interim periods - fiscal year 2022 (in thousands, except per share information) | | | | |
|---|---|---|---|---|--|
| | As restated - three months ended 10/2/21 | As restated - three months ended 1/1/22 | As restated - three months ended 4/2/22 | As restated - three months ended 7/2/22 | As restated - twelve months ended 7/2/22 |
| Net sales | \$ 133,130 [1] | \$ 136,407 [2] | \$ 140,714 [3] | \$ 133,926 [4] | \$ 544,177 |
| Cost of sales | 122,992 [1] | 126,599 [2] | 129,206 [3] | 122,166 [4] | 500,963 |
| Gross profit | 10,138 | 9,808 | 11,508 | 11,760 | 43,214 |
| Research, development and engineering expenses | 2,449 | 2,498 | 2,526 | 2,348 | 9,821 |
| Selling, general and administrative expenses | 5,595 | 5,659 | 6,193 | 7,151 | 24,598 |
| Gain on insurance proceeds, net of losses | — | — | — | — | — |
| Total operating expenses | 8,044 | 8,157 | 8,719 | 9,499 | 34,419 |
| Operating income | 2,094 | 1,651 | 2,789 | 2,261 | 8,795 |
| Interest expense, net | 992 | 1,095 | 1,551 | 1,466 | 5,104 |
| Income before income taxes | 1,102 | 556 | 1,238 | 795 | 3,691 |
| Income tax provision (benefit) | 287 | (31) | 231 | (173) | 314 |
| Net income | \$ 815 | \$ 587 | \$ 1,007 | \$ 968 | \$ 3,377 |
| Net income per share — Basic | \$ 0.08 | \$ 0.05 | \$ 0.09 | \$ 0.09 | \$ 0.31 |
| Weighted average shares outstanding — Basic | 10,762 | 10,762 | 10,762 | 10,762 | 10,762 |
| Net income per share — Diluted | \$ 0.07 | \$ 0.05 | \$ 0.09 | \$ 0.09 | \$ 0.31 |
| Weighted average shares outstanding — Diluted | 11,052 | 11,057 | 11,062 | 11,071 | 11,063 |

[1] - Includes an increase of \$368 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[2] - Includes an increase of \$1,951 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[3] - Includes an increase of \$2,323 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

[4] - Includes an increase of \$7,720 over amounts previously reported in the Net Sales and Cost of Sales lines, respectively.

Revision of Unaudited Consolidated Balance Sheets

In addition, in connection with the preparation of the Company's consolidated financial statements as of and for the year ended June 29, 2024, the Company concluded that it had not recorded an immaterial adjustment related to its adoption on July 2, 2023 of ASU 2016-13 Financial Instruments - Credit Losses (ASU 326): Measurement of Credit Losses on Financial Instruments. As of July 2, 2023, the Company should have performed an assessment and recorded any adjustment as a modified retrospective adjustment through its opening retained earnings balance. The error resulted in an immaterial overstatement of accounts receivable, contract assets, other assets and retained earnings as of March 30, 2024, December 30, 2023 and September 30, 2023. Given the restatement described above, the Company elected to revise its unaudited consolidated balance sheets as of March 30, 2024, December 30, 2023 and September 30, 2023 in the following tables. The related unaudited consolidated statements of operations, statements of comprehensive income, shareholders' equity and cash flows were not materially impacted by this error and have not been revised for this matter.

| CORRECTED CONSOLIDATED BALANCE SHEETS (in thousands) | As revised - as of 9/30/23 | As revised - as of 12/30/23 | As revised - as of 3/30/24 |
|---|-------------------------------|--------------------------------|-------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 3,574 | \$ 2,953 | \$ 5,255 |
| Trade receivables, net of credit losses | <i>[1]</i> 138,463 | \$ 131,913 | \$ 132,663 |
| Contract assets | <i>[1]</i> 32,878 | \$ 27,745 | \$ 28,594 |
| Inventories | 126,778 | \$ 124,054 | \$ 115,115 |
| Other | <i>[1]</i> 21,700 | \$ 21,382 | \$ 20,994 |
| Total current assets | 323,393 | \$ 308,047 | \$ 302,621 |
| Property, plant and equipment, net | 28,085 | \$ 28,935 | \$ 29,046 |
| Operating lease right-of-use assets, net | 15,928 | \$ 18,104 | \$ 16,790 |
| Other assets: | | | |
| Deferred income tax asset | <i>[1]</i> 14,161 | \$ 14,117 | \$ 15,533 |
| Other | 7,500 | \$ 6,243 | \$ 6,109 |
| Total other assets | 21,661 | \$ 20,360 | \$ 21,642 |
| Total assets | \$ 389,067 | \$ 375,446 | \$ 370,099 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 101,638 | \$ 91,358 | \$ 82,198 |
| Accrued compensation and vacation | 11,860 | \$ 5,677 | \$ 7,071 |
| Current portion of long-term debt | 2,886 | \$ 3,068 | \$ 3,094 |
| Other | 16,640 | \$ 18,263 | \$ 17,040 |
| Total current liabilities | 133,024 | \$ 118,366 | \$ 109,403 |
| Long-term liabilities: | | | |
| Long-term debt, net | 115,789 | \$ 114,894 | \$ 122,193 |
| Operating lease liabilities | 10,939 | \$ 12,380 | \$ 11,351 |
| Deferred income tax liability | 324 | 22 | \$ 19 |
| Other long-term obligations | 1,201 | 627 | \$ 336 |
| Total long-term liabilities | 128,253 | 127,923 | \$ 133,899 |
| Total liabilities | 261,277 | 246,289 | \$ 243,302 |
| Commitments and contingencies (Note 9) | | | |
| Shareholders' equity: | | | |
| Common stock, no par value—shares authorized 25,000; issued and outstanding 10,762, 10,762, and 10,762 shares, respectively | 47,786 | 47,839 | 47,891 |
| Retained earnings | <i>[1]</i> 80,043 | 81,127 | 78,906 |
| Accumulated other comprehensive (loss) income | (39) | 191 | — |
| Total shareholders' equity | 127,790 | 129,157 | 126,797 |
| Total liabilities and shareholders' equity | \$ 389,067 | \$ 375,446 | \$ 370,099 |

[1] - Each presented period includes a reduction for expected credit losses of \$(2,979) related to receivables, \$(1,230) related to Other, \$(25) related to Contract Assets, \$956 related to deferred income tax asset, and \$(3,278) related to Retained Earnings. These adjustments serve to reflect a modified retrospective adoption of ASC 326 - Financial Instruments, Credit Losses. The related tax-effects and subsequent inter-period adjustments are considered immaterial for presentation on an interim basis.

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 Chief Executive Officer and Chief Financial Officer, allowing for timely decisions regarding required disclosures.

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

Based on our assessment, we believe that as of June 29, 2024, the Company’s disclosure controls and procedures were not effective as a result of the material weaknesses in internal control over financial reporting discussed below.

Management’s Report on Internal Control over Financial Reporting

Our management has the responsibility to establish and maintain adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. 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 June 29, 2024. This assessment was based on the criteria established in Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission. Based on our assessment, management concluded that the Company’s internal control over financial reporting was not effective as of June 29, 2024 due to the material weaknesses described below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified:

The Company did not fully maintain components of the COSO framework, including elements of the control environment, risk assessment, control activities, and monitoring activities components, relating to: (i) sufficiency of processes to identify and analyze risks to the achievement of objectives across the entity, (ii) sufficiency of competent personnel with appropriate levels of knowledge, experience, and training in accounting, and internal control matters to perform assigned responsibilities and have appropriate accountability for the design and operation of internal control over financial reporting; (iii) sufficiency of procedures to select and develop control activities that contribute to the mitigation of risks, and (iv) performing ongoing evaluations to ascertain whether the components of internal control are present and functioning.

The entity level material weaknesses contributed to material weaknesses within the Company's financial close and reporting processes as follows:

- The Company did not design and implement effective controls over the adoption of new accounting standards.
- The Company did not design and implement effective controls over the accounting for revenue recognition relating to cost recovery of material price variances.

These material weaknesses resulted in the restatement of our consolidated financial statements as of and for the years ended July 1, 2023 and July 2, 2022 and our unaudited consolidated statements of operations for the quarters ended March 30, 2024, December 30, 2023, September 30, 2023, April 1, 2023, December 31, 2022, October 1, 2022, April 2, 2022, January 1, 2022 and October 2, 2021, and revision of our unaudited consolidated balance sheets as of March 30, 2024, December 30, 2023, and September 30, 2023.

As a result of this determination, management has taken, and is in the process of taking, the following actions to remediate the identified material weaknesses in its internal control over financial reporting:

- Training related to the proper accounting for material price variances
- Enhancing closing process documentation related to material price variances
- Hiring of technical accounting finance staff with US GAAP knowledge and experience; and
- Enhance closing process documentation related to adoption of new accounting standards

We will continue to assess the effectiveness of our controls and remediation efforts in connection with our future assessments of the effectiveness of internal control over financial reporting and disclosure controls and procedures.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting during our fourth fiscal quarter ended June 29, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)).

Item 9B: OTHER INFORMATION

During the fiscal year ended June 29, 2024, none of our directors or officers adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as defined in Regulation S-K, Item 408.

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 2024 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 2024 fiscal year (the “2024 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 2024 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 2024 Proxy Statement is incorporated herein by this reference.

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

Information under the captions “Beneficial Ownership of Securities” and “Equity Compensation Plan Information” in the Company’s 2024 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 2024 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 2024 Proxy Statement is incorporated herein by this reference.

PART IV

Item 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. FINANCIAL STATEMENTS

| | <u>Page in Form 10-K</u> |
|---|--------------------------|
| <u>FINANCIAL STATEMENTS</u> | |
| Report of Independent Registered Public Accounting Firm (Moss Adams, LLP) | 35 |
| Consolidated Balance Sheets | 37 |
| Consolidated Statements of Income | 38 |
| Consolidated Statements of Comprehensive Income | 39 |
| Consolidated Statements of Cash Flows | 40 |
| Consolidated Statements of Shareholders’ Equity | 41 |
| Notes to Consolidated Financial Statements | 42 |

3. EXHIBITS

| Exhibit No. | Description |
|-------------|---|
| 3.1 | Articles of Incorporation, incorporated by reference to Exhibit 3.1 to the Company's Form 10-K for the year ended July 3, 2021, |
| 3.2 | Bylaws, as amended, incorporated by reference to Exhibit 3.2 to the Company's Form 10-K for the year ended July 3, 2021 |
| 4.1 | Description of the Company's securities, incorporated by reference to Exhibit 4.1 to the Company's Form 10-K for the year ended July 3, 2021 |
| 10.1* | 2010 Incentive Plan, as amended and restated October 23, 2014, incorporated by reference to Appendix A to the Company's 2014 Proxy Statement |
| 10.2* | Form of Restricted Stock Unit Grant Notice and Agreement, submitted herewith |
| 10.3* | Description of Employment Contract of Craig D. Gates, incorporated by reference to the Company's 1998 Proxy Statement, pages 10 and 11 |
| 10.4* | 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 |
| 10.5* | 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 |
| 10.6* | 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 |
| 10.7* | 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 |
| 10.8* | Consulting Agreement of Craig D. Gates, dated June 20, 2024, submitted herewith |
| 10.9* | Employment Contract of Brett R. Larsen, dated April 22, 2010, including the Amendment to Employment Contract, dated August 23, 2011, and the Amendment to Employment Contract, dated May 11, 2012, submitted herewith |
| 10.10* | Employment Contract of Anthony G. Voorhees, dated August 3, 2022, submitted herewith |
| 10.11* | 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 |

| | |
|--------|---|
| 10.12* | 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 |
| 10.13* | 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 |
| 10.14* | 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 |
| 10.15* | 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 |
| 10.16* | Summary of Incentive Compensation Plan Performance Goals and Target Payments for Fiscal Year 2025 and Fiscal Years 2025-2027 Long Term Incentive Plan Performance Measures and Awards, incorporated by reference to the Company’s Form 8-K filed on September 9, 2024 |
| 10.17 | Announcement that the Company has signed a letter of intent to lease a new facility in Da Nang, Vietnam |
| 10.18 | 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 |
| 10.19 | 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 |
| 10.20 | First Amendment to Loan and Security Agreement, dated November 10, 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 10-K for the year ended July 2, 2022 |
| 10.21 | 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 |
| 10.22 | 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 to the Company’s Form 10-K for the year ended July 2, 2022 |
| 10.23 | Fourth Amendment to Loan, Guaranty and Security Agreement, dated March 29, 2024, 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 May 13, 2024 |
| 10.24 | Fifth Amendment to Loan, Guaranty and Security Agreement, dated September 27, 2024, 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 October 1, 2024 |

| | |
|---------|--|
| 10.25 | Sixth Amendment to Loan, Guaranty and Security Agreement, dated October 9, 2024, 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 October 10, 2024 |
| 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 |
| 97.1 | Policy Relating to Recovery of Erroneously Awarded Compensation, 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: October 15, 2024

KEY TRONIC CORPORATION

By: /s/ Brett R. Larsen
Brett R. Larsen, 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/ Brett R. Larsen</u> | <u>October 15, 2024</u> |
| Brett R. Larsen | Date |
| President and Chief Executive Officer | |
| (Principal Executive Officer) | |

| | |
|--|-------------------------|
| <u>/s/ Anthony G. Voorhees</u> | <u>October 15, 2024</u> |
| Anthony G. Voorhees | Date |
| Executive Vice President of Administration, Chief Financial | |
| Officer and Treasurer | |
| (Principal Financial Officer and Principal Accounting Officer) | |

| | |
|---|-------------------------|
| <u>/s/ Ronald F. Klawitter</u> | <u>October 15, 2024</u> |
| Ronald F. Klawitter, Director and Chairman of the Board | Date |

| | |
|---------------------------|-------------------------|
| <u>/s/ Craig D. Gates</u> | <u>October 15, 2024</u> |
| Craig D. Gates, Director | Date |

| | |
|--------------------------|-------------------------|
| <u>/s/ James R. Bean</u> | <u>October 15, 2024</u> |
| James R. Bean, Director | Date |

| | |
|-------------------------------------|-------------------------|
| <u>/s/ Subodh K. Kulkarni</u> | <u>October 15, 2024</u> |
| <u>Subodh K. Kulkarni, Director</u> | <u>Date</u> |

| | |
|-----------------------------|-------------------------|
| <u>/s/ Yacov A. Shamash</u> | <u>October 15, 2024</u> |
| Yacov A. Shamash, Director | Date |

| | |
|---------------------------|-------------------------|
| <u>/s/ Cheryl Beranek</u> | <u>October 15, 2024</u> |
| Cheryl Beranek, Director | Date |

CORPORATE DIRECTORY + SHAREHOLDER INFORMATION

DIRECTORS

Ronald F. Klawitter

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

James R. Bean

Former General Manager Radar Business Unit Sensata Technologies Inc.

Cheryl Beranek

President and Chief Executive Officer Clearfield, Inc.

Craig D. Gates

Former President and Chief Executive Officer 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

OFFICERS AND MANAGEMENT

Brett R. Larsen

President and Chief Executive Officer

Adam Agress

Executive Vice President of Business Development

Philip S. Hochberg

Executive Vice President of Customer Relations and Integration

David H. Knaggs

Executive Vice President of Quality and Information Systems

Duane D. Mackleit

Executive Vice President of Operations

Chad T. Orebaugh

Executive Vice President of Engineering

Anthony G. Voorhees

Executive Vice President of Administration, Chief Financial Officer and Treasurer

Mark R. Courtney

Vice President of Supply Chain

Alvaro Cuevas

Vice President of Manufacturing Engineering and Estimation

Thomas E. Despres

Sr. Vice President of Southwest Operations

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 43006
Providence, RI 02940-3006

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 June 29, 2024, was \$4.05. As of June 29, 2024, the company had 561 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

keytronic.com

