

NORTECH SYSTEMS INC
Form 10-K
March 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2016

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the transition period from to

NORTECH SYSTEMS INCORPORATED

(Exact name of registrant as specified in its charter)

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Commission file number **0-13257**

State of Incorporation: **Minnesota**

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 per share	NASDAQ Capital Market

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

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

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

The aggregate market value of voting stock held by non-affiliates of the registrant, based on the closing price of \$3.73 per share, was \$4,533,953 on June 30, 2016.

Shares of common stock outstanding at February 28, 2017: 2,747,831.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2017 Annual Shareholders' Meeting have been incorporated by reference into Part III of this Form 10-K. The Proxy Statement is expected to be filed with the Securities and Exchange Commission (the SEC) within 120 days after December 31, 2016, the end of our fiscal year.

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NORTECH SYSTEMS INCORPORATED

ANNUAL REPORT ON FORM 10K

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NORTECH SYSTEMS INCORPORATED

FORM 10-K

For the Year Ended December 31, 2016

PART I

Item 1. Business

We are a Minnesota corporation organized in December 1990, filing annual reports, quarterly reports, proxy statements, and other documents with the SEC under the Securities Exchange Act of 1934 (the Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE., Washington, D.C. 20549 on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, who file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www.sec.gov>.

General

We are an Electronic Manufacturing Services (EMS) company with our headquarters in Maple Grove, Minnesota, a suburb of Minneapolis, Minnesota. We maintain facilities and operations in Minnesota and Wisconsin in the United States; Monterrey, Mexico; and Suzhou, China. We offer a full range of value-added engineering, technical and manufacturing services and support including project management, design, testing, prototyping, manufacturing, supply chain management and post-market services. Our manufacturing and engineering services include complete medical devices, printed circuit board assemblies, wire and cable assemblies, and complex higher level electromechanical assemblies. The majority of our revenue is derived from products built to the customer's design specifications.

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

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In addition to industry standard certifications we actively manage quality metrics throughout product life-cycle at all levels of the organization to provide real-time, pro-active support to our customers and their projects. Process validation is performed through the strict phases of installation qualification, operation qualification and performance qualification.

Business Segment

All of our operations fall under the Contract Manufacturing segment within the EMS industry. We strategically direct production between our various manufacturing facilities based on a number of considerations to best meet our customers' needs. We share resources for sales, marketing, engineering, supply chain, information services, human resources, payroll, and all corporate accounting functions. Our financial information is consolidated and evaluated regularly by the chief operating decision maker in assessing performance and allocating resources.

Business Strategy

The EMS industry has evolved into a dynamic, high-tech, regulated global electronics contract services industry. We continue to expand our capabilities and foot print to better meet these changing market requirements. Along

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with offering technical expertise in our quality processes, engineering design applications and testing, we are also increasing our focus on supplier-managed inventory services and the cost drivers throughout the global supply chain. We continue to transform our business model from one that is less transactional and price/commodity driven to a solution based model focused on value added services. We continue to pursue acquisitions, mergers, and/or joint ventures of companies in the EMS industry to expand our service offering, advance our competitive edge, grow our customer base and increase revenues. Our strategic objectives and our history have been based on both organic and acquired growth.

Our quality systems and processes are based on International Standards Organization (ISO) standards with all facilities certified to ISO 9001 and/or Aerospace Systems (AS) 9100 standards. We also have ISO 13485 certification which recognizes our quality management systems applicable to contract design, manufacture and repair of assemblies for the medical industry. Our Milaca operation is a U.S. Food and Drug Administration (FDA) registered facility. These certifications and registrations provide our customers assurance of our capabilities and proven processes. All of our facilities are certified to one or more of the ISO/AS standards, with most having additional certifications based on the requirements of their customers.

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

Marketing

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

Our customer emphasis continues to be on companies that require an electronic manufacturing partner with a high degree of manufacturing and quality sophistication, including statistical process control, statistical quality control, ISO standards, Military Specifications, AS 9100 and FDA facility registration. We continue efforts to penetrate our existing customer base and expand market opportunities with participation in industry forums and selected trade shows. We target customers who value proven manufacturing performance, design, project management and application engineering expertise and who value the flexibility to manage the supply chain of a high mix of products and services. We market our services through a mix of traditional marketing outreach, a specialized business development team and independent manufacturers representatives. For more information on our marketing and service offerings see our web site at nortechsys.com. The information on our company's website is not part of this filing.

Sources and Availability of Materials

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We currently purchase the majority of our electronic components globally and directly from electronic component manufacturers and large electronic distributors. On occasion some of our components may be placed on a stringent allocation basis; however, we are not currently experiencing any major material purchasing or availability problems.

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Major Customers

Our largest customer has two divisions that together accounted for approximately 24% and 27% of net sales for the years ended December 31, 2016 and 2015, respectively. One division accounted for approximately 20% and 18% of net sales for the years ended December 31, 2016 and 2015, respectively. The second division accounted for approximately 4% and 9% of net sales for the years ended December 31, 2016 and 2015, respectively.

Patents and Licenses

We are not presently dependent on a proprietary product requiring licensing, patent, copyright or trademark protection. We believe our success depends more on our technical expertise, trade secrets, supply chain and manufacturing skills.

Competition

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

Research and Development

We perform research and development for customers on an as requested, project and program basis for development of conceptual engineering and design activities as well as products moving into production. We did not expend significant dollars in 2016 or 2015 on company-sponsored product research and development.

Environmental Law Compliance

We believe that our manufacturing facilities are currently operating under compliance with local, state, and federal environmental laws. We have incurred, and plan to continue incurring, the expenditures we deem necessary for compliance with applicable laws. Any environmental-oriented

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equipment is capitalized and depreciated over a seven-year period. The annualized depreciation expense for this type of environmental equipment is insignificant. Expenditures relating to compliance for operating facilities incurred in the past have not significantly affected our capital expenditures, earnings or competitive position.

Government Regulation

As a medical device manufacturer we have additional compliance requirements. We are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation (QSR) requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections and product field monitoring by the FDA.

Employees

We have 782 full-time and 122 part-time/temporary employees as of January 31, 2017. Manufacturing personnel, including direct, indirect support and sales functions, comprise 866 employees, while general administrative employees total 38. At January 31, 2016 we had 740 full-time and 101 part-time/temporary employees.

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Foreign Operations and Export Sales from Our Domestic Operations

We have leased manufacturing facilities in Monterrey, Mexico and Suzhou, China with approximately \$1,238,000 and \$362,000 in long-term assets at December 31, 2016, respectively. Export sales from our domestic operations represented 8% and 13% of net sales the years ended December 31, 2016 and 2015, respectively. The decrease in export sales relates to the increase in sales originating from Mexico and China.

Item 1A. Risk Factors

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

The economic conditions in the United States and around the world could adversely affect demand for our products and services and the financial health of our customers.

Demand for our products and services depends upon worldwide economic conditions, including but not limited to overall economic growth rates, construction, consumer spending, financing availability, employment rates, interest rates, inflation, consumer confidence, defense spending levels, and the profits, capital spending, and liquidity of industrial companies.

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

We operate in the highly competitive EMS industry and we depend on continuing outsourcing by OEM s.

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

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

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

We may not meet regulatory quality standards applicable to our manufacturing and quality processes which could have an adverse effect on our business.

As a medical device manufacturer we have additional compliance requirements. We are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's QSR requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control

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and documentation procedures. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections and product field monitoring by the FDA. If any FDA inspection reveals noncompliance with QSR or other FDA regulations, it could adversely affect our operations.

A large percentage of our sales have been made to a small number of customers, and the loss of a major customer, if not replaced, would adversely affect us.

Our largest customer has two divisions that account for 24% and 27% of net sales for the years ended December 31, 2016 and 2015, respectively. The loss of a substantial portion of net sales to our largest customers could have a material adverse effect on us.

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

We purchase raw materials, commodities and components for use in our production. Increased costs of these materials could have an adverse effect on our production costs if we are unable to pass along price increases or reduce the other cost of goods produced through cost improvement initiatives. Fuel and energy cost increases could also adversely affect our freight and operating costs. Due to customer specifications and requirements, we are dependent on suppliers to provide critical electronic components and materials for our operations that could result in shortages of some of the electronic components needed for their production. Component shortages may result in expedited freight, overtime premiums and increased component costs. In addition to the financial impact on operations from lost revenue and increased cost, there could potentially be harm to our customer relationships.

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

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

Our exposure to financially troubled customers or suppliers may adversely affect our financial results.

We provide manufacturing services to companies and industries that have in the past, and may in the future, experience financial difficulty. If our customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our products from these customers could decline. Additionally, if our suppliers experience financial difficulty we could have difficulty sourcing supply necessary to fulfill production requirements and meet scheduled shipments. If one or more of our customers were to become insolvent or otherwise were unable to pay for the services provided by us on a timely basis, or at all, our operating results and financial condition could be adversely affected. Such adverse effects could include one or more of the following: an increase in our provision for doubtful accounts, a charge

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for inventory write-offs, a reduction in revenue, and an increase in our working capital requirements due to higher inventory levels and increases in days our accounts receivable are outstanding.

Some shareholders may be able to take actions that do not reflect the will or best interests of other shareholders.

Our officers and directors control a majority share of our outstanding common stock and could individually or together exert a significant degree of influence over our affairs.

The manufacture and sale of our products carries potential risk for product liability claims.

We represent and warrant the goods and services we deliver are free from defects in material and workmanship for one year from ship date. We make no other guarantees or warranties, expressed or implied, of any nature whatsoever as to the goods including without limitation, warranties to merchantability, fit for a particular purpose,

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non-infringement of patent or the like unless agreed upon in writing. If a product liability claim results in our being liable and the amount is in excess of our insurance coverage or there is no insurance coverage for the claim then it could have an adverse effect on our business and financial position.

We depend heavily on our people and may from time to time have difficulty attracting and retaining skilled employees.

Our operations depend upon the continued contributions of our key management, marketing, technical, financial, accounting, product development engineers, sales people and operational personnel. We also believe that our continued success will depend upon our ability to attract, retain and develop highly skilled managerial and technical resources within the highly competitive EMS industry. Not being able to attract or retain these employees could have a material adverse effect on revenues and earnings.

Anti-Corruption and Trade Laws - We may incur costs and suffer damages if our employees, agents, or suppliers violate anti-bribery, anti-corruption or trade laws and regulations.

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

Changes in currency translation rates could adversely impact our revenue and earnings.

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

Operating in foreign countries exposes our operations to risks that could adversely affect our operating results.

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

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Non-compliance with environmental laws may result in restrictions and could adversely affect operations.

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

Environmental laws could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation. We operate in environmentally sensitive locations and are subject to potentially conflicting and changing regulatory agendas of political, business, and environmental groups. Changes or restrictions on discharge limits; emissions levels; or material storage, handling, or disposal

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might require a high level of unplanned capital investment or relocation. It is possible that environmental compliance costs and penalties from new or existing regulations may harm our business, financial condition, and results of operations.

We may be subject to risks associated with our acquisitions, and the risks could adversely affect our operating results.

Our strategy is to grow our business organically and through acquisitions, alliances and joint venture arrangements. We will continue to pursue and acquire additional businesses in the EMS industry that fit our long-term objectives for growth and profitability. The success of our acquisitions will depend on our ability to integrate the new operations with the existing operations. The Company cannot ensure that the expected benefits of any acquisition will be realized. Costs could be incurred on pursuits or proposed acquisitions that have not yet or may not close which could significantly impact the operating results, financial condition, or cash flows. Additionally, after the acquisition, unforeseen issues could arise which adversely affect the anticipated returns or which are otherwise not recoverable as an adjustment to the purchase price. Other acquisition risks include delays in realizing benefits from the acquired companies or products; difficulties due to lack of or limited prior experience in any new product or geographic markets we enter; unforeseen losses of customers of, or suppliers to, acquired businesses; difficulties in retaining key employees of the acquired businesses; or challenges arising from increased geographic diversity and complexity of our operations and our information technology systems. The price we pay for a business may exceed the value we realize and we cannot assure you that we will achieve the expected synergies and benefits of any acquisition. Acquisitions may result in the recording of goodwill and other intangible assets which are subject to potential impairments in the future that could harm our financial results.

If we fail to comply with the covenants contained in our credit agreement we may be unable to secure additional financing and repayment obligations on our outstanding indebtedness may be accelerated.

Our credit agreement contains financial and operating covenants with which we must comply. As of December 31, 2016, we were in compliance with these covenants. However, our continued compliance with these covenants is dependent on our financial results, which are subject to fluctuation as described elsewhere in these risk factors. If we fail to comply with the covenants in the future or if our lender does not agree to waive any future non-compliance, we may be unable to borrow funds and any outstanding indebtedness could become immediately due and payable, which could materially harm our business.

We are dependent on our management information systems for order, inventory and production management, financial reporting, communications and other functions. If our information systems fail or experience major interruptions, including those relating to cyber-security or arising from cyber-attacks, our business and our financial results could be adversely affected.

We rely on our management information systems to effectively manage our operational and financial functions. Our computer systems, Internet web sites, telecommunications, and data networks are also vulnerable to damage or interruption from power loss, natural disasters and attacks from viruses or hackers, including cybersecurity threats and incidents. Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology systems to targeted measures directed at the Company, its customers, its designs and/or its products. Although we utilize various procedures and controls to attempt to mitigate our exposure to these risks, attacks are evolving and unpredictable and we cannot guarantee that any risk prevention measures implemented will be successful. System failures or interruptions, including those relating to cybersecurity or arising from cyber-attacks, could adversely affect our business, financial condition, and operating results.

Our business may be impacted by natural disasters or future climate change.

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

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and China, potential natural disasters or future climate changes could disrupt our manufacturing operations, reduce demand for our customers products and increase supply chain costs.

Item 1B. Unresolved Staff Comments

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

Item 2. Properties**Administration**

Our corporate headquarters consists of an approximately 19,000 square feet building located in Maple Grove, Minnesota, a northwestern suburb of Minneapolis, Minnesota. The corporate headquarters has a lease that expires in November 2022. Approximately 1,500 Sq. Ft. of our Bemidji manufacturing facility is used for corporate financial and information systems shared services.

Manufacturing facilities

Our manufacturing facilities are in good operating condition and we believe our overall production capacity is sufficient to handle our foreseeable manufacturing needs and customer requirements. The following are our manufacturing facilities as of December 31, 2016:

Location	Own/Lease	Lease End Date	Manufacturing Space Square Feet	Office Space Square Feet	Total Square Feet
Bemidji, MN	Own		56,000	13,000	69,000
Blue Earth, MN	Own		92,000	48,000	140,000
Merrifield, MN	Own		34,000	12,000	46,000
Eden Prairie, MN	Lease	December 31, 2018		15,000	15,000
Milaca, MN	Lease	December 31, 2018	15,000	5,000	20,000
Mankato, MN	Own		43,000	15,000	58,000
Augusta, WI *	Own		15,000	5,000	20,000
Monterrey, Mexico	Lease	December 31, 2019	45,000	1,000	46,000
Suzhou, China	Lease	December 31, 2021	27,000	3,000	30,000

* Closed on January 31, 2016 and currently being sold.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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As of February 28, 2017, there were 681 shareholders of record. Our stock is listed on the NASDAQ Capital Market under the symbol NSYS . We intend to invest our profits into the growth of our operations and, therefore, do not plan to pay out dividends to shareholders in the foreseeable future. We did not declare or pay a cash dividend in 2016 or 2015. Future dividend policy and payments, if any, will depend upon earnings and our financial condition, our need for funds, limitations on payments of dividends present in our current or future debt agreements, and other factors.

Stock price comparisons (NASDAQ):

During the Three Months Ended	Low		High	
March 31, 2016	\$	3.66	\$	4.25
June 30, 2016	\$	3.59	\$	3.89
September 30, 2016	\$	3.66	\$	4.52
December 31, 2016	\$	3.48	\$	4.14
March 31, 2015	\$	4.90	\$	5.98
June 30, 2015	\$	4.19	\$	5.08
September 30, 2015	\$	3.87	\$	4.59
December 31, 2015	\$	3.88	\$	4.32

Sales of Unregistered Securities:

We did not have any unregistered sales of equity securities in 2016.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

We did not make any purchases of our equity securities in 2016.

Equity Compensation Plan Information

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

Item 6. Selected Financial Data

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

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

Overview

We are a Minnesota based full-service EMS contract manufacturer offering a full range of value-added engineering, technical and manufacturing services and support including project management, design, testing, prototyping, manufacturing, supply chain management and post-market services. Our products are complex wire and cable assemblies, printed circuit board assemblies, higher-level assemblies, medical devices and other box builds for a wide range of industries. We serve three major markets within the EMS industry: Aerospace and Defense, Medical, and the Industrial market which includes industrial equipment, transportation, vision, agriculture, oil and gas. In Minnesota, we have facilities in Bemidji, Blue Earth, Eden Prairie, Mankato, Merrifield, Milaca and Maple Grove. We also had facilities as of December 31, 2016 in Augusta, Wisconsin; Monterrey, Mexico and Suzhou, China. We have since closed our manufacturing operations in Augusta, Wisconsin on January 31, 2017. (See Note 9 to our Financial Statements)

The majority of our revenue is derived from products built to the customer's design specifications following a wide range of manufacturing processes, from simple to highly complex. Our goal is to expand and diversify our customer base by focusing on sales and marketing efforts that fit our value-added service strategy. During 2016, we continued our supply chain and lean manufacturing initiatives designed to reduce costs, improve asset utilization and increase responsiveness to customers. Our initiatives focused on improving quality and on-time delivery as well as improving our manufacturing processes and yields by doing it right the first time.

In 2016 we expanded operations in Suzhou, China for our strategic global customers that require support of their regional production. Start up costs decreased operating income for the year with production revenue starting in the second half of the year. Start up costs included in cost of goods sold in 2016 was \$451,000.

Our net sales in 2016 were \$116.6 million, compared to \$115.2 million in 2015, an increase of 1.2%. Revenue from our medical customers in 2016 increased 30% over 2015, due to our increased emphasis on expanding our early engagement strategy and engineering services business. Revenue from our industrial customers decreased 21% year over year, due to industry and economic factors in the oil, gas, energy and transportation market sectors. Our defense revenue increased 11% year over year with the improvement coming from our unique capabilities in molded round cable technology.

The strategic investments in the past two years have positioned us to capitalize on growth opportunities in the medical markets and improve our competitiveness by expanding our global footprint. Our industrial and defense markets are focused on improving our asset utilization, as demonstrated by our closure of our Augusta, Wisconsin facility (see Note 9 to our Financial Statements), and profitability while transforming to a value added, solution-sell business model that supports early engagement, design for manufacturability and rapid prototyping.

Our 90-day backlog at December 31, 2016 was \$20.5 million, compared to \$20.7 million at the end of 2015. Our medical customers 90 day backlog increased 35% compared to the prior year end. The medical increase was offset by decreases in backlog to our defense customers, down 36%, and industrial customers, down 15%.

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Our gross profit as a percentage of net sales was 11.9% and 10.5% for the years ended December 31, 2016 and 2015, respectively. The increase in gross profit for the year was driven by the mix in higher margin medical products and engineering services and selective price actions.

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Our income from operations for the 2016 fiscal year was \$629,000, an improvement of \$1,051,000 compared to the 2015 loss from operations of \$422,000.

Our net income in 2016 was \$44,000 or \$0.02 per diluted common share, compared to a net loss in 2015 of \$571,000 or \$0.21 per diluted common share.

Cash provided by operating activities for the year ended December 31, 2016 was \$3.5 million. The noncash add back of depreciation and amortization along with favorable working capital adjustments has positively impacted the operating cash flows. Cash provided by operating activities for the year ended December 31, 2015 was \$3.4 million.

Critical Accounting Policies and Estimates

Our significant accounting policies and estimates are summarized in the footnotes to our annual consolidated financial statements. Some of the accounting policies require us to exercise significant judgment in selecting the appropriate assumptions for calculating financial estimates. Such judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, known trends in the industry, terms of existing contracts and other information from outside sources, as appropriate. Actual results may differ from these estimates under different assumptions and conditions.

Certain of the most critical estimates that require significant judgment are as follows:

Revenue Recognition

We recognize manufacturing revenue when we ship goods or the goods are received by our customer, when title has passed, all contractual obligations have been satisfied, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. Generally, there are no formal substantive customer acceptance requirements or further obligations related to manufacturing services. If such requirements or obligations exist, then we recognize the related revenues at the time when such requirements are completed and the obligations are fulfilled. We also provide engineering services separate from the manufacturing of a product. Revenue for engineering services is generally recognized on a time and materials basis or upon completion of the engineering process. In addition, we have another separate source of revenue that comes from short-term repair services, which are recognized when the repairs are completed and the repaired products are shipped back to the customer. Our net sales for services were less than 10% of our total sales for all periods presented, and accordingly, are included in net sales in the consolidated statements of income. Shipping and handling costs charged to our customers are included in net sales, while the corresponding shipping expenses are included in cost of goods sold.

Goodwill and Other Intangible Assets

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In accordance with ASC 350, *Goodwill and Other Intangible Assets*, goodwill is not amortized but is required to be reviewed for impairment at least annually or when events or circumstances indicate that carrying value may exceed fair value. We test impairment annually as of October 1st. In testing goodwill for impairment we perform a quantitative impairment test, including computing the fair value of the reporting unit and comparing that value to its carrying value. If the fair value is less than its carrying value, a second step of the test is required to determine if recorded goodwill is impaired. In the event that goodwill is impaired, an impairment charge to earnings would become necessary. Based on the fourth quarter 2016 goodwill impairment test we concluded that goodwill was not impaired.

We recognize the assets acquired and liabilities assumed in business combinations on the basis of their fair values at the date of acquisition. We assess the fair value of assets, including intangible assets, using a variety of methods and each asset is measured at fair value from the perspective of a market participant. The method used to estimate the fair values of intangible assets incorporates significant assumptions

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regarding the estimates a market participant would make in order to evaluate an asset, including a market participant's use of the asset and the appropriate discount rates for a market participant. Any excess purchase price over the fair value of the net tangible and intangible assets acquired is allocated to goodwill.

Long-Lived Assets Impairment

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

Allowance for Doubtful Accounts

When evaluating the adequacy of the allowance for doubtful accounts, we analyze accounts receivable, historical write-offs of bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on outstanding accounts receivable. An amount of judgment is required when assessing the ability to realize accounts receivable, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, an additional provision for uncollectible accounts may be required. We believe the reserve is adequate for any exposure to loss in the December 31, 2016 accounts receivable. At December 31, 2016, our allowance for doubtful accounts was \$883,000.

Inventory Reserves

Inventory reserves are maintained for the estimated value of the inventory that may have a lower value than stated or quantities in excess of future production needs. We have an evaluation process to assess the value of the inventory that is slow moving, excess or obsolete on a quarterly basis. We evaluate our inventory based on current usage and the latest forecasts of product demand and production requirements from our customers. We believe the total reserve at December 31, 2016, is adequate. At December 31, 2016 our inventory reserve was \$673,000.

Operating Results

The following table presents our statements of income data as percentages of net sales for the indicated year:

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	2016	2015
Net Sales	100.0%	100.0%
Cost of Goods Sold	88.1	89.5
Gross Profit	11.9	10.5
Selling Expenses	4.3	4.6
General and Administrative Expenses	7.1	6.3
Income (Loss) from Operations	0.5	(0.4)
Other Expense	0.5	0.4
Income Tax Expense (Benefit)	0.0	(0.3)
Net Income (Loss)	0.0%	(0.5)%

Net Sales

For the years ended December 31, 2016 and 2015, we had net sales of \$116.6 million and \$115.2 million, respectively, an increase of 1.2%. Revenue from our medical customers in 2016, increased 30% over 2015. Our Devicix engineering business, which we acquired on July 1, 2015, generated medical engineering services revenue of \$6.6 million in 2016, which accounted for \$4.0 million and 32% of the increase in medical revenue over 2015. Our industrial customers' revenue decreased 21% year over year, due to industry and economic factors in the oil, gas, energy and transportation market sectors. Our defense revenue increased 11% year over year by our unique capabilities in molded round cable technology.

Net sales by our major EMS industry markets for the years ended December 31, 2016 and 2015 are as follows:

(in thousands)	2016	2015	%
			Change
Aerospace and Defense	\$ 16,115	\$ 14,458	11
Medical	53,836	41,308	30
Industrial	46,671	59,426	(21)
Total Net Sales	\$ 116,622	\$ 115,192	1

Backlog

Our 90 day backlog was approximately \$20.5 million on December 31, 2016, compared to \$20.7 million at December 31, 2015. Backlog for our medical customers increased 35%, due to our breadth of offerings in an added early engagement strategy, as well as component solutions for wire and cable assemblies and printed circuit board assemblies, while industrial customers backlog fell 15%, which was impacted by the sluggish transportation sector, and aerospace and defense backlog which decreased 36%, due to the timing of contracts and the reduction of past due orders.

90 day backlog by our major EMS industry markets are as follows:

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(in thousands)	Backlog as of the Year Ended				% Change
	December 31		December 31		
	2016	2015	2016	2015	
Aerospace and Defense	\$ 3,637	\$ 5,678			(36)
Medical	10,799	8,004			35
Industrial	6,042	7,067			(15)
Total Backlog	\$ 20,478	\$ 20,749			(1)

Our 90 day backlog varies due to order size, manufacturing delays, inventory programs, contract terms and conditions and changes in timing of customer delivery schedules and releases. These variables cause inconsistencies in comparing the backlog from one period to the next.

Gross Profit

For the years ended December 31, 2016 and 2015, we had gross profit of \$13.8 million and \$12.1 million, respectively. Gross profit as a percentage of net sales was 11.9% and 10.5% for the years ended December 31, 2016 and 2015, respectively. The improvement in gross profit for the year was due to increased revenue to our medical device customers, our increased medical design engineering service revenue and selective pricing actions.

Selling

Selling expenses were \$4.9 million or 4.3% of net sales for the year ended December 31, 2016 and \$5.2 million or 4.6% of net sales for the year ended December 31, 2015. The decrease in selling expenses for 2016 is due to decreased incentive payouts due to low performance and other people related expenses. We expect to increase our investment in business development activities and marketing initiatives to maintain existing business and stimulate sales growth.

General and Administrative

General and administrative expenses were \$8.3 million or 7.1% of net sales for the year ended December 31, 2016 and \$7.2 million or 6.3% of net sales for the year ended 2015. The increase in general and administrative expense was due to an increase in our provision for doubtful accounts by \$0.6 million due to a customer bankruptcy and a bad debt write off from a settlement, which resulted in the acquisition of certain intellectual property, along with additional full year costs related to operating expenses for Devicix medical engineering services operations of \$0.5 million and the new China facility of \$0.2 million, partially offset by the reduction in the contingent consideration related to the purchase of Devicix of \$0.3 million.

Interest Expense

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Interest expense for the years ended December 31, 2016 and 2015 was approximately \$0.6 million and \$0.5 million, respectively. The increase in the 3 Month Libor rate in 2016 drove the increase in interest expense.

Income Taxes

Income tax expense for the year ended December 31, 2016 was \$35,000. Income tax benefit for the year ended December 31, 2015 was \$316,000. The effective tax rate for fiscal 2016 and 2015 was 44.4% and 35.6%, respectively. Our 2016 tax rate was impacted by our China start up operations.

The statutory rate reconciliation for the years ended December 31, 2016 and 2015 is as follows:

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	2016		2015
Statutory federal tax provision (benefit)	\$ 27,000	\$	(302,000)
State income taxes	(32,000)		3,000
Effect of foreign operations	107,000		(5,000)
Uncertain tax positions	2,000		(3,000)
Income tax credits	(134,000)		(125,000)
Valuation Allowance	49,000		86,000
Permanent differences	16,000		30,000
Income tax expense (benefit)	\$ 35,000	\$	(316,000)

Net Income (Loss)

Our net income in 2016 was \$44,000 or \$0.02 per diluted common share. Net loss in 2015 was (\$571,000) or (\$0.21) per diluted common share. The 2015 net loss was primarily due to the gross profit impact of business expansion ramp up costs.

Liquidity and Capital Resources

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

Credit Facility

We have a credit agreement with Wells Fargo Bank which was most recently amended on January 12, 2017 and provides for a line of credit arrangement of \$15.0 million that expires, if not renewed, on May 31, 2018. The credit arrangement also has a \$1.8 million real estate term note outstanding with a maturity date of March 31, 2027, an additional \$1.7 million real estate term note outstanding that is due, if not renewed, on December 31, 2027, an equipment loan for \$2.7 million and a term loan facility of up to \$1.0 million for capital expenditures, both with maturity dates of May 31, 2018. As of December 31, 2016, we have borrowed \$684,000 against the \$1.0 million capital term note.

Under the credit agreement, both the line of credit and real estate term notes are subject to variations in the LIBOR rate. Our line of credit bears interest at three-month LIBOR + 2.25% (approximately 3.25% at December 31, 2016) while our real estate term notes bear interest at three-month LIBOR + 2.75% (approximately 3.75% at December 31, 2016). The weighted-average interest rate on our line of credit was 3.1% and 2.8% for the twelve months ended December 31, 2016 and December 31, 2015, respectively. We had borrowing on our line of credit of \$7,315,262 and \$7,691,237 outstanding as of December 31, 2016 and December 31, 2015, respectively. We report our revolver as long term. The line of credit requires a lock box arrangement; however there are no subjective acceleration clauses that would accelerate the maturity of our outstanding borrowings.

As part of the July 1, 2015, Devicix acquisition, we entered into two unsecured subordinated promissory notes payable to the seller in the principal amounts of \$1.0 million and \$1.3 million. The \$1.0 million promissory note has a four-year term, bearing interest at 4% per annum,

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requiring monthly principal and interest payments of \$22,579 and is subject to offsets if certain revenue levels are not met. The \$1.3 million promissory note has a four year term and bears interest at 4% per annum, requiring monthly principal and interest payments of \$29,353 and is not subject to offset.

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Our credit agreement requires us to maintain a fixed charge coverage ratio of not less than 1.05 to 1.00 through June 30, 2017 and 1.10 to 1.00 thereafter. We believe our performance will be sufficient to comply with this covenant going forward.

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

The availability under the line is subject to borrowing base requirements. At December 31, 2016, we have net unused availability under our line of credit of approximately \$5.7 million as compared to \$6.1 million at the end of 2015. The line is secured by substantially all of our assets.

Cash flows for the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Cash flows provided by (used in):		
Operating activities	\$ 3,534,125	\$ 3,395,062
Investing activities	(1,953,208)	(3,668,608)
Financing activities	(1,389,505)	208,062
Effect of exchange rate changes on cash	75,905	0
Net change in cash	\$ 267,317	\$ (65,484)

Cash provided by operating activities for the year ended December 31, 2016 was \$3.5 million, comprised of the noncash add back of depreciation and amortization, as well as cash generated by our operations due to working capital changes. Cash provided by operating activities for the year ended December 31, 2015 was \$3.4 million.

Net cash used in investing activities was \$2.0 million and \$3.7 million for the years ended December 31, 2016 and 2015, respectively. Cash used in investing activities in 2016 was primarily due to the purchase of property and equipment, of which \$0.7 million related to expanding our operations in Mexico and China. Cash used in investing activities in 2015 was primarily due to the acquisition of Devicix and equipment purchases, including \$0.9 million related to the addition of printed circuit board production capabilities in Mexico.

Net cash used in financing activities in 2016 of \$1.4 million, consisted of a reduction in borrowings on the line of credit of \$0.4 million, payments on long-term debt of \$1.5 million, offset by additional borrowings of \$0.5 million on our capital equipment note. Net cash provided by financing activities in 2015 of \$0.2 million, consisted of additional borrowings of \$1.6 million, offset by net repayments on the line of credit of \$0.3 million and payments on long-term debt of \$1.0 million.

Cash conversion cycle:

Three months ended December 31,

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	2016	2015
Days in trade accounts receivable	56	54
Days in inventory	76	67
Days in accounts payable	(51)	(45)
Cash conversion cycle	81	76

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We calculate days in accounts receivable as accounts receivable for the respective quarter divided by annualized sales for the respective quarter by day. We calculate days in inventory and accounts payable as each balance sheet line item for the respective quarter divided by annualized cost of sales for the respective quarter by day. We calculate cash conversion cycle as the sum of days in receivable and inventory less days in accounts payable. The increase in our cash conversion cycle in 2016 is due to the increase in inventory days related to the large amount of product transfers between our wired cable plants and the customer safety stock finished goods needed in the closing of the Augusta facility.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Forward-Looking Statements

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

- Volatility in the marketplace which may affect market supply and demand of our products;
- Increased competition;
- Changes in the reliability and efficiency of our operating facilities or those of third parties;
- Risks related to availability of labor;
- Increases in certain raw material costs such as copper and oil;
- Commodity and energy cost instability;
- General economic, financial and business conditions that could affect our financial condition and results of operations;
- Risks of operating in foreign countries; and
- Ability to integrate the acquisition with the existing operations

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

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NORTECH SYSTEMS INCORPORATED AND SUBSIDIARY

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DECEMBER 31, 2016 AND 2015

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Nortech Systems Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheets of Nortech Systems Incorporated and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedule of Nortech Systems Incorporated and Subsidiaries listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nortech Systems Incorporated and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Minneapolis, Minnesota

March 8, 2017

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NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
DECEMBER 31, 2016 AND 2015

	2016	2015
Net Sales	\$ 116,621,719	\$ 115,191,905
Cost of Goods Sold	102,781,469	103,132,874
Gross Profit	13,840,250	12,059,031
Operating Expenses:		
Selling Expenses	4,947,853	5,248,521
General and Administrative Expenses	8,263,334	7,232,558
Total Operating Expenses	13,211,187	12,481,079
Income (Loss) From Operations	629,063	(422,048)
Interest Expense	(550,289)	(465,374)
Income (Loss) Before Income Taxes	78,774	(887,422)
Income Tax Expense (Benefit)	35,000	(316,000)
Net Income (Loss)	\$ 43,774	\$ (571,422)
Earnings (Loss) Per Common Share:		
Basic	\$ 0.02	\$ (0.21)
Weighted Average Number of Common Shares Outstanding - Basic	2,747,424	2,745,759
Diluted	\$ 0.02	\$ (0.21)
Weighted Average Number of Common Shares Outstanding - Dilutive	2,749,545	2,745,759
Other comprehensive income (loss)		
Foreign currency translation	18,491	
Comprehensive income (loss), net of tax	\$ 62,265	\$ (571,422)

See accompanying notes to consolidated financial statements

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NORTECH SYSTEMS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash	\$ 268,204	\$ 887
Accounts Receivable, less allowances of \$883,000 and \$320,000	17,320,784	18,431,746
Inventories	20,653,841	20,185,445
Prepaid Expenses	1,048,373	1,452,656
Income Taxes Receivable	198,535	302,005
Total Current Assets	39,489,737	40,372,739
Property and Equipment, Net	10,330,834	10,507,748
Goodwill	3,283,454	3,283,454
Other Intangible Assets, Net	1,861,764	2,052,420
Deferred Taxes		