

Risk Factors Comparison 2024-10-15 to 2023-09-26 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

RISKS RELATED TO OUR BUSINESS AND STRATEGY Our operations may be subject to certain risks. We manufacture product in facilities located in Mexico, China, Vietnam and the United States. These operations may be subject to a number of risks, including: • difficulties in staffing, turnover and managing onshore and offshore operations; • political and economic instability (including acts of terrorism, pandemics, civil unrest, forms of violence and outbreaks of war), which could impact our ability to ship, manufacture, and / or receive product; • unexpected changes in regulatory requirements and laws, including those related to climate change; • longer customer payment cycles and difficulty collecting accounts receivable; • cash liquidity, the ability to acquire new debt capacity, and capital constraints; • export duties, import controls and trade barriers (including quotas); • governmental restrictions on the transfer of funds; • burdens of complying with a wide variety of foreign laws and labor practices; subject to trade wars and tariffs; • our locations are subject to physical and operational risks from natural disasters, severe weather events, and climate change ~~; and~~ **our locations may also be impacted by future temporary closures and labor constraints as a result of local mandates for medical, climate, and unforeseen emergencies ; 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 In the event that such tax incentives are not extended, are repealed, or we no longer qualify for such programs, our taxes may increase, which would reduce our net income.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 ~~doubtful receivables~~ **credit losses**, ~~net-realizable~~ **provision for inactive, obsolete, and surplus** inventory, ~~revenue recognition~~ **stock-based compensation**, ~~and~~ **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~~ **the rapidly changing COVID-19 environment** can materially impact operating results. We are exposed to general economic conditions, which could have a material adverse impact on our business, operating results and financial condition. Adverse economic conditions and uncertainty in the global economy such as unstable global financial and credit markets, inflation, and recession can negatively impact our business. Unfavorable economic conditions could affect the demand for our customers' products by triggering a reduction in orders as well as a decline in forecasts which could adversely affect our sales in future periods. Additionally, the financial strength of our customers and suppliers and their ability to obtain and rely on credit financing may affect their ability to fulfill their obligations to us and have an adverse effect on our financial results. Adverse macroeconomic conditions, such as those that were a result of COVID- 19 have and may continue to affect our business. The conditions affect the Company' s ability to predict and plan for future supply chain disruptions, fluctuations in customer demand and costs, and the ability to operate as there is uncertainty over future temporary closures. Inflation has also risen globally to historically high levels. ~~If~~ **As** the inflation rate continues to increase, the costs of labor and other expenses ~~could also 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 **major 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. **Additionally Our inability to enforce contracts with**, if one or more of our **or the bankruptcy or insolvency of, any of our principal customers could adversely affect** were to become insolvent or **or otherwise unable to pay** business. We rely on **timely and regular payments from our customers, and the inability for** **or failure of our principal customers to meet the their obligations to** manufacturing services provided by us, **our** **or operating results and 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 would** **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 adversely affected 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 **earthquakes, tsunamis and other 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' **request 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. ~~Key Tronic continues to work closely with its employees and key suppliers to ascertain delays attributable to the COVID-19 pandemic. Delays in production and extended transit times of critical parts have and may continue to cause a shortage of components.~~ We operate in a highly competitive industry; if we are not able to compete effectively in the contract manufacturing industry, our business could be adversely affected. Competitors may offer customers lower prices on certain high volume programs. This could result in price reductions, reduced margins and loss of market share, all of which would materially and adversely affect our business, operating results, and financial condition. If we were unable to provide comparable or better manufacturing services at a lower cost than our competitors, it could cause sales to decline. In addition, competitors can copy our non-proprietary designs and processes after we have invested in development of products for customers, thereby enabling such competitors to offer lower prices on such products due to savings in development costs. Fluctuations in foreign currency exchange rates **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 Peso** and the Chinese currency, the renminbi ("RMB"). Currency exchange rates fluctuate daily as a result of a number of factors, including changes in a country's political and economic policies. Volatility in the currencies of our entities and the United States dollar, as well as inflationary costs, could seriously harm our business, operating results and financial condition. The primary impact of currency exchange fluctuations is on the cash, receivables, payables and expenses of our operating entities. As part of our hedging strategy, we **may currently** use Mexican **peso Peso** forward contracts to hedge future foreign currency fluctuations for a portion of our Mexican **peso 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. Unexpected losses Losses could 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**; including as a result of COVID-19, can lead to significant currency exchange fluctuations, can occur **causing, 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. ~~However, given the unprecedented nature of the pandemic the FASB staff believes that an entity may apply the exception in paragraph 815-30-40-4 for rare cases caused by extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of an entity to delays in the timing of the forecasted transactions if those delays are related to the effects of the COVID-19 pandemic and are considered probable to still occur. In addition, the FASB staff believes that it would be acceptable for an entity to determine that missed forecasts related to the effects of the COVID-19 pandemic need not be considered when determining whether it has exhibited a pattern of missing forecasts that would call into question its ability to accurately predict forecasted transactions and the propriety of using cash flow hedge accounting in the future for similar transactions.~~ Our success will continue to depend to a significant extent on our key personnel **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 are currently managing a number of new programs. Consequently, our exposure to these factors has increased 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. The Company has been able to manage the arrival of components in an effort to control inventory levels of customers that have seen sharp decreases in demand as a result of market conditions. Compliance or the failure to comply with current and future environmental and health laws or regulations could cause us significant expense. We are subject to a variety of domestic and foreign environmental regulations relating to the use, storage, and disposal of materials used in our manufacturing processes. In addition, increasing governmental focus on climate change may result in new environmental regulations that may negatively affect us, our vendors or our customers. As a result, we may incur additional costs or obligations in complying with any new environmental and reporting requirements, as well as increased indirect costs resulting from our vendors or suppliers that get passed on to us. If we fail to comply with any present or future regulations, we could be subject to future liabilities or the suspension of current manufacturing operations. In addition, such regulations could restrict our ability to expand our operations or could require us to acquire costly equipment, substitute materials, or incur other significant expenses to comply with government regulations. If our manufacturing processes and services do not comply with applicable statutory and regulatory requirements, or if we manufacture products containing design or manufacturing defects, demand for our services may decline and we may be subject to liability claims. We manufacture and design products to our customers' specifications, and, in some cases, our manufacturing processes and facilities may need to comply with applicable statutory and regulatory requirements. For example, medical devices that we manufacture or design, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the Food and Drug Administration and non-U.S. counterparts of this agency. In addition, our customers' products and the manufacturing processes that we use to produce them often are highly complex. As a result, products that we manufacture may at times contain manufacturing or design defects, and our manufacturing processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers or reduced or canceled customer orders. If these defects or deficiencies are significant, our 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. Our When our business is experiencing growth which, 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; manage appropriate inventory levels; continue to develop the management skills of our managers and supervisors; and continue to train, motivate and manage our employees. Our failure to effectively manage growth could have a material adverse effect on our results of operations. Energy price increases may negatively impact our results of operations. Certain components that we use in our manufacturing process are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources in our transportation activities. While significant uncertainty currently exists about the future levels of energy prices, a significant increase, such as the increased fuel prices experienced in fiscal year 2023-2022, 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-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 **in the future** to mitigate against **the Previously Disclosed Cyber Incident and other** cybersecurity incidents as threats are expected to continue **and** to become more persistent and sophisticated. If our systems for protecting against cybersecurity incidents, **including the Previously Disclosed Cyber Incident,** prove **not** to be ~~insufficient~~ **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 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 ability to secure and maintain sufficient credit arrangements is key to our continued operations. There is no assurance that we will be able to retain or replace our credit agreements in the future or obtain sufficient capital for operating requirements. In the event the business grows rapidly or there is uncertainty in the macroeconomic climate, additional financing resources could be necessary. There is no assurance that we will be able to obtain equity or debt financing at acceptable terms, maintain sufficient borrowing capacity on the existing revolver, or at all in the future. In addition, we have restrictive covenants with our financial institution which could impact how we manage our business. If we cannot meet our financial covenants, our borrowings could become immediately payable which could have a material adverse impact on our financial statements. For a summary of our banking arrangements, see Footnote "Long-Term Debt" of the "Notes to Consolidated Financial Statements." An adverse change in the interest rates for our borrowings could adversely affect our financial condition. We are exposed to interest rate risk under our revolving line of credit and term loan. We have not historically hedged the interest rate on our credit facility; therefore, unless we do so, significant changes in interest rates could adversely affect our results of operations. For a summary of our debt obligations, see Footnote "Long-Term Debt" of the "Notes to Consolidated Financial Statements."

Our stock price is volatile. Our stock price has and may continue to be subject to wide fluctuations and possible rapid increases or declines over a short time period. These fluctuations may be due to factors specific to us such as our stock's thinly traded nature, variations in quarterly operating results, changes in earnings estimates, 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 If we fail to maintain proper and effective internal controls, our business and financial condition could be materially adversely impacted. We have concluded that previously identified a material weakness in our internal control over financial reporting, and our disclosure controls undertook remediation efforts to address the identified deficiencies and concluded that the procedures were not effective as of June 29, 2024 due to material weakness weaknesses was remediated, which as has of July 3, 2024 adversely affected our ability to report our financial results in a timely and accurate manner and could have a material adverse impact our business and financial condition. If we are required to evaluate other the deficiencies in 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 discovered 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 or our occur in 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 may 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 misstatements 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 required to restate materially adversely impacted. We cannot assure you that we will not discover additional deficiencies in our internal control over financial reporting results and incur the additional costs and expenses associated therewith. 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 July 2 June 29, 2023-2024, 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. If we Further and continued determinations that there are deficiencies unable to provide reliable and timely financial reports in the effectiveness future, our business and reputation may be further harmed. Restated financial statements and failures in internal controls may also cause us to fail to meet additional reporting obligations, negatively affect investor confidence in our management and the accuracy of our financial statements and disclosures, or result in adverse publicity and concerns from investors, any of which could have a negative effect on the Company price of our common stock, subject us to regulatory investigations and penalties or stockholder litigation, and materially adversely impact our business, financial condition, results of operations and cash flows. Matters relating to or arising from the subject of the Audit Committee’s internal investigation, including expenses and diversion of personnel and resources, regulatory investigations, and proceedings and litigation matters, could have an adverse effect on our business, results of operations and financial condition. We have incurred, and may continue to incur, significant expenses related to legal, accounting and other professional services in connection with matters relating to or arising from the subject of the Audit Committee’s internal investigation. We have taken steps in order to remediate identified deficiencies in our internal control over financial reporting and attempt could result in another restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce the risk of future recurrence. To the extent these steps were not successful, we may incur significant additional time and expense. In addition, we are cooperating with the Securities and Exchange Commission (the “ SEC ”) regarding matters related to the internal investigation. The completion of the internal investigation did not automatically resolve the SEC’s inquiries. If the SEC or 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 other -- the regulator were to commence legal action against price of our common stock, subject us, we could be required to pay significant regulatory investigations and 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 or stockholder 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 --- litigation. 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 materially 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 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 provisions of the Sarbanes- Oxley Act and the Dodd- Frank Wall Street Reform and Consumer Protection Act (the Dodd- Frank Act). The Sarbanes- Oxley and Dodd- Frank Acts required or will require changes in some of our corporate governance, securities disclosure and compliance practices. The SEC and NASDAQ Global Market ("Nasdaq") have promulgated new rules and additional rulemaking is expected in the future. Compliance with these new rules and future rules has increased and **may is expected to** increase further our legal, financial and accounting costs as well as a potential risk of noncompliance. Absent significant changes in related rules, which we cannot assure, we anticipate some level of increased costs related to these new regulations to continue indefinitely. We also expect these developments to make it more difficult and more expensive to obtain director and officer liability insurance, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our Board of Directors or qualified management personnel. Further, the costs associated with the compliance with and implementation of procedures under these and future laws and related rules could have a material impact on our results of operations. In addition, the costs associated with noncompliance with additional securities laws and regulations could also impact our business. Changes in financial accounting standards may affect our reported financial condition or results of operations as well as increase costs related to implementation of new standards and modifications to internal controls. Our consolidated financial statements are prepared in conformity with accounting standards generally accepted in the United States, or U. S. GAAP. These principles are subject to amendments made primarily by the Financial Accounting Standards Board (FASB) and the SEC. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions which are completed before a change is announced. Changes to accounting rules or challenges to our interpretation or application of the rules by regulators may have a material adverse effect on our reported financial results or on the way we conduct business. **GENERAL RISKS** Our levels of insurance coverage may not be sufficient for potential damages, claims or losses. We have various forms of business and liability insurance which we believe are appropriate based on the needs of companies in our industry. As a result, not all of our potential business risks or potential losses would be covered by our insurance policies. If we sustain a significant claim or loss which is not covered by insurance, our net income could be negatively impacted. We may encounter complications with acquisitions, which could potentially harm our business. Any current or future acquisitions may require additional equity financing, which could be dilutive to our existing shareholders, or additional debt financing, which could potentially affect our credit ratings. Any downgrades in our credit ratings associated with an acquisition could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. The integration of acquired businesses may be further complicated by difficulties managing operations in geographically dispersed locations. The integration of acquired businesses may not be successful and could result in disruption by diverting management's attention from the core business. In addition, the integration of acquired businesses may require that we incur significant restructuring charges or other increases in our expenses and working capital requirements, which reduce our return on invested capital. Acquisitions may involve numerous other risks and challenges including but not limited to: potential loss of key employees and customers of the acquired companies; the potential for deficiencies in internal controls at acquired companies; lack of experience operating in the geographic market or industry sector of the acquired business; constraints on available liquidity, and exposure to unanticipated liabilities of acquired companies. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our consolidated business and operating results. **Item 1B. UNRESOLVED STAFF COMMENTS** None