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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**Form 10-Q**

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

**For the quarterly period ended March 31, 2026**

Or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-09587**

**ELECTRO-SENSORS, INC.**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of incorporation or  
organization)

**41-0943459**

(IRS Employer Identification No.)

**6111 Blue Circle Drive  
Minnetonka, Minnesota 55343-9108**

(Address of principal executive offices)

**(952) 930-0100**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.10 par value	ELSE	Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares outstanding of the registrant's common stock, \$0.10 par value, on May 13, 2026 was 3,532,423.

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**ELECTRO-SENSORS, INC.**  
**Form 10-Q**  
**For the Period Ended March 31, 2026**

**TABLE OF CONTENTS**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	4
<u>Item 1. Financial Statements (unaudited):</u>	4
<u>Condensed Balance Sheets – As of March 31, 2026 and December 31, 2025</u>	4
<u>Condensed Statements of Operations – For the Three Months Ended March 31, 2026 and March 31, 2025</u>	5
<u>Condensed Statements of Changes in Stockholders' Equity – For the Three Months Ended March 31, 2026 and March 31, 2025</u>	6
<u>Condensed Statements of Cash Flows – For the Three Months Ended March 31, 2026 and March 31, 2025</u>	7
<u>Notes to Condensed Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
<b><u>PART II – OTHER INFORMATION</u></b>	22
<u>Item 1. Legal Proceedings</u>	22
<u>Item 1A. Risk Factors</u>	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3. Defaults Upon Senior Securities</u>	22
<u>Item 4. Mine Safety Disclosures</u>	22
<u>Item 5. Other Information</u>	22
<u>Item 6. Exhibits</u>	22
<b><u>SIGNATURES</u></b>	23

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### ELECTRO-SENSORS, INC. CONDENSED BALANCE SHEETS

(in thousands except share and per share amounts)

	March 31, 2026	December 31, 2025
	(unaudited)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,756	\$ 10,545
Investments	56	56
Trade receivables, less allowance for credit losses of \$11 and \$11, respectively	1,393	1,404
Inventories, net	2,080	2,028
Other current assets	315	248
Income tax receivable	72	72
<b>Total current assets</b>	<b>14,672</b>	<b>14,353</b>
<b>Deferred income tax asset, net</b>	<b>495</b>	<b>464</b>
<b>Property and equipment</b>	<b>892</b>	<b>885</b>
<b>Total assets</b>	<b>\$ 16,059</b>	<b>\$ 15,702</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 274	\$ 254
Accrued expenses	887	631
<b>Total current liabilities</b>	<b>1,161</b>	<b>885</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Common stock par value \$0.10 per share; authorized 10,000,000 shares; 3,532,423 and 3,482,423 shares issued and outstanding, respectively	353	348
Additional paid-in capital	2,726	2,534
Retained earnings	11,819	11,935
<b>Total stockholders' equity</b>	<b>14,898</b>	<b>14,817</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 16,059</b>	<b>\$ 15,702</b>

See accompanying notes to unaudited condensed financial statements

**ELECTRO-SENSORS, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(in thousands except share and per share amounts)  
(unaudited)

	Three Months Ended March 31	
	2026	2025
<b>Net sales</b>	<b>\$ 2,579</b>	<b>\$ 2,239</b>
<b>Cost of goods sold</b>	<b>1,257</b>	<b>1,155</b>
<b>Gross profit</b>	<b>1,322</b>	<b>1,084</b>
<b>Operating expenses</b>		
Selling and marketing	517	420
General and administrative	749	587
Research and development	274	246
<b>Total operating expenses</b>	<b>1,540</b>	<b>1,253</b>
<b>Operating loss</b>	<b>(218)</b>	<b>(169)</b>
<b>Non-operating income</b>		
Interest expense	(3)	0
Interest income	74	88
<b>Total non-operating income, net</b>	<b>71</b>	<b>88</b>
<b>Loss before income tax benefit</b>	<b>(147)</b>	<b>(81)</b>
<b>Income tax benefit</b>	<b>(31)</b>	<b>(17)</b>
<b>Net loss</b>	<b>\$ (116)</b>	<b>\$ (64)</b>
<b>Net loss per share data:</b>		
<b>Basic</b>		
Net loss per share	\$ (0.03)	\$ (0.02)
Weighted average shares	3,511,867	3,449,021
<b>Diluted</b>		
Net loss per share	\$ (0.03)	\$ (0.02)
Weighted average shares	3,511,867	3,449,021

See accompanying notes to unaudited condensed financial statements

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

**For the three months ended March 31**

	<u>Common Stock</u> <u>Issued</u>		<u>Additional</u> <u>Paid-in</u> <u>Capital</u>	<u>Retained</u> <u>Earnings</u>	<u>Total</u> <u>Stockholders'</u> <u>Equity</u>
	<u>Shares</u>	<u>Amount</u>			
December 31, 2025	3,482,423	\$ 348	\$ 2,534	\$ 11,935	\$ 14,817
Stock options exercised	50,000	5	166		171
Stock-based compensation expense			26		26
Net loss				(116)	(116)
<b>Balance March 31, 2026 (unaudited)</b>	<b><u>3,532,423</u></b>	<b><u>\$ 353</u></b>	<b><u>\$ 2,726</u></b>	<b><u>\$ 11,819</u></b>	<b><u>\$ 14,898</u></b>
December 31, 2024	3,449,021	\$ 344	\$ 2,360	\$ 11,629	\$ 14,333
Stock-based compensation expense			31		31
Net loss				(64)	(64)
<b>Balance March 31, 2025 (unaudited)</b>	<b><u>3,449,021</u></b>	<b><u>\$ 344</u></b>	<b><u>\$ 2,391</u></b>	<b><u>\$ 11,565</u></b>	<b><u>\$ 14,300</u></b>

See accompanying notes to unaudited condensed financial statements

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2026</b>	<b>2025</b>
<b>Cash flows from (used in) operating activities</b>		
<b>Net loss</b>	<b>\$ (116)</b>	<b>\$ (64)</b>
Adjustments to reconcile net loss to net cash from (used in) operating activities:		
Depreciation	21	23
Deferred income taxes	(31)	41
Stock-based compensation expense	26	31
Change in allowance for credit losses	0	5
Change in:		
Trade receivables	11	(201)
Inventories	(52)	(46)
Other current assets	(67)	(36)
Accounts payable	20	160
Accrued expenses	256	115
Income tax payable/receivable	0	(58)
<b>Net cash from (used in) operating activities</b>	<b>68</b>	<b>(30)</b>
<b>Cash flows used in investing activities</b>		
Purchase of property and equipment	(28)	0
<b>Net cash used in investing activities</b>	<b>(28)</b>	<b>0</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of stock options	171	0
<b>Net cash from financing activities</b>	<b>171</b>	<b>0</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>211</b>	<b>(30)</b>
Cash and cash equivalents, beginning	10,545	9,948
Cash and cash equivalents, ending	<b>\$ 10,756</b>	<b>\$ 9,918</b>
<b>Supplemental cash flow information</b>		
Cash paid for income taxes	<b>\$ 0</b>	<b>\$ 0</b>
Cash paid for interest	<b>\$ 3</b>	<b>\$ 0</b>

See accompanying notes to unaudited condensed financial statements

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
(unaudited)

**Note 1. Basis of Presentation and Significant Accounting Policies**

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions and regulations of the Securities and Exchange Commission to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

This report should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2025, including the audited financial statements and footnotes therein.

Management believes that the unaudited condensed financial statements include all adjustments, consisting of normal recurring accruals, necessary to fairly state the Company's financial position as of March 31, 2026 and results of operations for the three-month periods ended March 31, 2026 and 2025, in accordance with accounting principles generally accepted in the United States of America. The results of interim periods may not be indicative of results to be expected for the year.

**Nature of Business**

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

**Cash and Cash Equivalents**

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are invested in commercial paper, money market accounts, and may also be invested in Treasury Bills with an original maturity of three months or less. Cash equivalents are carried at fair value. Cash equivalents were \$7,986 and \$7,985 as of March 31, 2026 and December 31, 2025, respectively.

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

**Trade receivables and credit policies**

Trade receivables are uncollateralized customer obligations due under normal trade terms generally requiring payment within 30 days from the invoice date. Trade receivables are stated at the amount billed to the customer. Customer account balances with invoices over 90 days are considered delinquent. The Company does not accrue interest on delinquent trade receivables. Gross trade receivables at January 1, 2025 were \$1,320.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
(unaudited)

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

The Company maintains an allowance for credit losses on trade receivables, which is recorded as an offset to trade receivables. Changes in the allowance for credit losses are included as a component of operating expenses in the Statements of Operations. The Company assesses credit losses on a collective basis where similar risk characteristics exist. Receivables that do not share risk characteristics with other receivables, or where known collectability issues exist, are evaluated on an individual basis.

The allowance is based on the credit losses expected to arise over the life of the receivable (contractual term). The Company considers historical loss rates and current economic conditions when determining the expected credit losses. Receivables deemed uncollectible are written off against the allowance for credit losses. The Company has adopted the practical expedient to assume that the current conditions as of the balance sheet date will remain unchanged for the remaining life of the asset when developing a reasonable and supportable forecast as part of estimating expected credit losses on these assets. The allowance for credit losses was \$11 and \$11 at March 31, 2026 and December 31, 2025, respectively.

#### **Revenue Recognition**

At contract inception, the Company assesses the goods and services to be provided to a customer and identifies a performance obligation for each distinct good or service. The transaction price for each performance obligation is determined at contract inception. Contracts, generally in the form of a purchase order, specify the product or service that is to be provided to the customer. The typical contract life is less than one month and contains a single performance obligation, to provide conforming goods or services to the customer. Certain contracts have a second performance obligation, which typically is the initialization of the HazardPRO™ product. For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation using the relative stand-alone selling price. Stand-alone selling prices are based on observable stand-alone prices charged to customers. Product revenue is recognized at the point in time when control is transferred to the customer, which typically occurs upon shipment. Service revenue is recognized when provided to the customer and typically takes less than a week to provide.

#### **Fair Value Measurements**

The carrying value of cash equivalents, trade receivables, accounts payable, and other financial working capital items approximates fair value at March 31, 2026 and December 31, 2025, due to the short maturity nature of these instruments.

#### **Stock-Based Compensation**

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

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
(unaudited)

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Current significant estimates, including the underlying assumptions, consist of realizability of trade receivables, and valuation of deferred tax assets/liabilities, inventory, investments, and stock compensation expense. Actual results could differ from those estimates.

**Net Loss per Common Share**

Basic loss per share excludes dilution and is determined by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that could occur if securities such as options or restricted stock units were exercised or converted into common stock.

Diluted earnings per share ("Diluted EPS") considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential shares would have an anti-dilutive effect. Diluted EPS also excludes the impact of common shares issuable upon the exercise of outstanding stock options in periods in which the option exercise price is greater than the average market price of our common stock during the period.

For the three-month period ended March 31, 2026, and 2025, 110,000 and 185,000, respectively, weighted-average common shares for underlying stock options have been excluded from the calculation of diluted EPS because their effect would be anti-dilutive.

In addition, for each of the three-month periods ended March 31, 2026, and 2025, 52,500 and 84,000 restricted stock units, respectively, have been excluded from the calculation of diluted EPS because their effect would be anti-dilutive.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
(unaudited)

**Note 2. Investments**

The Company has investments in common equity securities of two private U.S. companies that have an undeterminable market.

Equity securities are stated at estimated fair value and realized and unrealized gains and losses, if any, are reported in our Statements of Operations in non-operating income.

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

	Cost	Gross unrealized gain	Gross unrealized loss	Fair value
<b>March 31, 2026</b>				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
<b>Total Investments, March 31, 2026</b>	<u>\$ 54</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 56</u>
<b>December 31, 2025</b>				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
<b>Total Investments, December 31, 2025</b>	<u>\$ 54</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 56</u>

**Note 3. Fair Value Measurements**

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

**March 31, 2026**

	Carrying amount in balance sheet	Fair Value	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Equity Securities	\$ 56	\$ 56	\$ 0	\$ 0	\$ 56

**December 31, 2025**

	Carrying amount in balance sheet	Fair Value	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Equity Securities	\$ 56	\$ 56	\$ 0	\$ 0	\$ 56

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

There was no change in Level 3 assets measured at fair value on a recurring basis during the three months ended March 31, 2026 and 2025.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
(unaudited)

**Note 4. Inventories**

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

	<b>March 31, 2026</b>	<b>December 31, 2025</b>
Raw Materials	<b>\$ 1,319</b>	<b>\$ 1,309</b>
Work In Process	<b>342</b>	<b>353</b>
Finished Goods	<b>439</b>	<b>386</b>
Reserve for Obsolescence	<b>(20)</b>	<b>(20)</b>
<b>Total Inventories, net</b>	<b><u>\$ 2,080</u></b>	<b><u>\$ 2,028</u></b>

**Note 5. Stock-Based Compensation**

**Stock options**

The 2013 Equity Incentive Plan (the “2013 Plan”) authorizes the issuance of nonqualified stock options. Payment for the shares may be made in cash, shares of the Company’s common stock or a combination thereof. Under the terms of the 2013 Plan, non-qualified stock options are granted at a minimum of 100% of fair market value on the date of grant and may be exercised at various times depending upon the terms of the option. All existing options expire 10 years from the date of grant, subject to early termination 12 months after termination of employment or service due to death, disability, or termination other than for cause. The grants include a provision providing for acceleration of vesting upon a change of control in the Company.

As of March 31, 2026, the total unrecognized compensation expense related to outstanding stock options was \$54, which the Company expects to recognize through October 2028. The Company recognized compensation expense in connection with the vesting of stock options of \$8 and \$10 for the three months ended March 31, 2026, and 2025, respectively.

There were no stock options granted or exercised in the three months ended March 31, 2025. There were no stock options granted in the three months ended March 31, 2026.

In February 2026, the Company’s president exercised 50,000 stock options for a total exercise price of \$171.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
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**Restricted stock units**

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

As of March 31, 2026, the total unrecognized compensation expense related to outstanding restricted stock units is \$174, which the Company expects to recognize through August 2028. The Company recognized compensation expense in connection with the vesting of restricted stock units of \$18 and \$22 for the three months ended March 31, 2026 and 2025, respectively.

There were no restricted stock units granted in the three months ended March 31, 2026 and 2025.

**Note 6. Contingencies**

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

**Note 7. Segment Information**

The Company has a single reportable segment based on the nature of its services and regulatory environment under which it operates. The nature of the business and the accounting policies of the segment are the same as described throughout Note 1. The Company's Chief Operating Decision Maker ("CODM") is its president. The CODM assesses the reportable segment's performance and determines the level of investment in the segment based on historical and projected operating results and net assets which are the same amounts in all material respects as those reported on the Statements of Operations and Balance Sheets.

**Note 8. Subsequent Event**

On April 20, 2026, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with steute Industrial Controls, Inc., a Connecticut corporation ("Parent") and Steute Burwell, Inc., a Minnesota corporation and a wholly owned subsidiary of Parent ("Merger Sub"). The Merger will become effective as such time as the Certificate of Merger has been filed and accepted by the Secretary of State of the State of Minnesota or at such other time as agreed upon by the Company and Parent in writing (the "Effective Time").

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
(unaudited)

The Merger is structured as a statutory reverse triangular merger under Connecticut and Minnesota law, and pursuant to the Merger Agreement, the Merger Sub will merge with and into the Company, with the Company surviving the merger and becoming a wholly owned subsidiary of Parent. At the Effective Time, by virtue of the Merger and without any further action on the part of the Company, Merger Sub, Parent, or any holder of shares of common stock of the Company or Merger Sub, each share of common stock of the Company that is issued and outstanding immediately prior to the Effective Time (other than dissenting shares and the shares held by the Company, Parent, or Merger Sub) will be converted into the right to receive \$7.75 in cash, subject to any required tax withholding.

It is anticipated that, immediately after the Merger, the Company will be a wholly owned subsidiary of Parent and will be a privately held company. At such time, it is anticipated that the Company would file a Form 25 with the SEC to delist and deregister our common stock and a Form 15 with the SEC to suspend our public reporting obligations.

At the Effective Time, outstanding stock options to purchase shares of common stock of the Company will be accelerated and fully vested and will, automatically and without any required action on the part of the holder thereof, be cancelled and will become entitled to receive an amount of cash equal to \$7.75 per share less the applicable exercise price, subject to any required tax withholding.

At the Effective Time, outstanding restricted stock units (“RSU”) will be accelerated and fully vested and will, automatically and without any required action on the part of the holder, thereof, be cancelled and converted into the right to receive an amount in cash equal to the product of the total number of shares of Company common stock underlying the RSU multiplied by \$7.75, subject to any required tax withholding.

Our board of directors (the “Board”) has approved and declared the Merger Agreement advisable and resolved to recommend that our shareholders approve the Merger Agreement and related matters at a special meeting of shareholders (“Special Meeting”). We expect the Merger to be consummated after obtaining the required approval by our stockholders and the satisfaction of certain other customary closing conditions. The Company currently expects the Merger to close in the second quarter of 2026. The consummation of the Merger is subject to the satisfaction or waiver of customary closing conditions, including, among other matters the approval by the Company’s shareholders of the Merger at a Special Meeting.

In connection with the execution of the Merger Agreement, the Company's directors, officers, and certain major shareholders, who collectively own a majority of the Company's outstanding shares of common stock, have entered into voting and support agreements (“Support Agreements”) agreeing to vote all of their shares of the Company’s common stock in favor of the various proposals related to the Merger Agreement and any other matters necessary for consummation of the Merger and against any action reasonably expected to impede, delay or materially and adversely affect the Merger at the Special Meeting. No written consents have been granted nor have any votes been cast yet with respect to the approval of the Merger by the shareholders of the Company. The Support Agreements may be terminated in connection with a termination of the Merger Agreement.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2026**  
**(in thousands except share and per share amounts)**  
(unaudited)

The Merger Agreement contains customary termination rights in favor of each of the Company and Parent. If the Company terminates the Merger Agreement, the Company will be required to pay Parent a termination fee of \$1,000, plus reimbursement of Parent's expenses up to \$300 under certain circumstances, including if the Merger Agreement is terminated due to a Recommendation Change by the Company's Board of Directors or if the Company enters into or consummates an alternative acquisition transaction following termination under certain circumstances. If Parent terminates the Merger Agreement, Parent will be required to pay the Company a termination fee of \$1,000.

As a condition to the completion of the Merger, the Company is required to maintain at least \$10,250 of unrestricted cash and cash equivalents at closing and for a period of 10 days prior to closing, subject to reduction for certain approved transaction expenses. If the Company's unrestricted cash and cash equivalents are below this required amount during the period, the Company could be in breach of certain representations, warranties, or covenants under the Merger Agreement, which could permit Parent to assert remedies under the Merger Agreement, including, under certain circumstances, termination rights. Any unrestricted cash and cash equivalents in excess of the required amount at closing will remain with the surviving company following completion of the Merger.

A full description of the terms of the Merger Agreement and all matters related thereto will be included in a Proxy Statement (the "Merger Proxy Statement") to be filed with the SEC. The Company urges investors, shareholders, and other interested persons to read, when available, the Merger Proxy Statement as well as other documents filed with the SEC by the Company because these documents will contain important information about the Company and Parent, and the proposed transaction. The definitive Merger Proxy Statement will be mailed to the Company's shareholders as of a record date to be established for voting on the proposed transaction. Shareholders will also be able to obtain a copy of the definitive Merger Proxy Statement (when available), without charge, by directing a request to: Electro-Sensors, Inc., 6111 Blue Circle Drive, Minnetonka MN 55343. The preliminary and definitive Merger Proxy Statement, once available, can also be obtained, without charge, at the SEC's website ([www.sec.gov](http://www.sec.gov)).

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **FORWARD-LOOKING STATEMENTS**

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

Our forward-looking statements generally relate to our growth strategy, future financial results, product development, and sales efforts. We make forward-looking statements throughout this Form 10-Q, but primarily in this Management’s Discussion and Analysis of Financial Condition and Results of Operations section. These include statements relating to our beliefs and expectations and intentions with respect to (i) our growth and profitability, (ii) our marketing and product development, (iii) our ability to continue to obtain parts and materials for our products from various manufacturers and distributors in a timely manner and at reasonable prices, (iv) the value of our intellectual property, (v) our competitive position in the marketplace, (vi) the effect of governmental regulations on our business, (vii) our employee relations, (viii) the adequacy of our facilities, (ix) our intention to develop new products, (x) the possibility of us acquiring compatible businesses or product lines as part of our growth strategy, (xi) our future cash requirements and use of cash, (xii) our expectations for the Company related to the Merger, including whether it will be completed in a timely manner or at all, the failure to obtain shareholder approval, the failure to satisfy the other conditions to the closing thereof, the effect of the announcement on the Company’s business relationships, the consideration to be received by shareholders as a result of the closing thereof, and the timing of the consummation thereof; and (xiii) our expectations for the Company following the consummation of the Merger, including the Company becoming a wholly owned subsidiary of the Parent, being privately held, and filing a Form 25 and Form 15 with the SEC.

Forward-looking statements cannot be guaranteed and our actual results may vary materially due to the uncertainties and risks, known and unknown, associated with these statements, including our ability to successfully develop new products and manage our cash requirements. We undertake no obligation to update any forward-looking statements. We cannot foresee or identify all factors that could cause actual results to differ from expected or historical results. As such, investors should not consider any list of these factors to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions. These forward-looking statements are subject to certain risks and uncertainties that could cause future results to differ materially from our recent results listed under the heading “Forward-Looking Statements” under “Item 1—Business,” in our Annual Report on Form 10-K for the year ended December 31, 2025.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers relevant to the circumstances. These decisions include the selection of applicable accounting principles and the use of judgment in their application and affect reported amounts and disclosures. Changes in economic conditions or other business circumstances may affect the outcomes of management’s estimates and assumptions. An in-depth description of our accounting estimates can be found in the interim financial statements included in this report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025. There have been no changes to our critical accounting estimates during the three-month period ended March 31, 2026.

## SELECTED FINANCIAL INFORMATION

The following table contains selected financial information, for the periods indicated, from our Condensed Statements of Operations expressed as a percentage of net sales.

	Three months ended	
	March 31	
	2026	2025
Net sales	100.0 %	100.0 %
Cost of goods sold	48.7	51.6
Gross profit	51.3	48.4
Operating expenses		
Selling and marketing	20.0	18.8
General and administrative	29.0	26.2
Research and development	10.6	11.0
Total operating expenses	59.6	56.0
Operating income (loss)	(8.3)	(7.6)
Non-operating income		
Interest expense	(0.1)	0
Interest income	2.9	3.9
Total non-operating income, net	2.8	3.9
Loss before income tax expense	(5.5)	(3.7)
Income tax benefit	(1.2)	(0.8)
Net loss	<u>(4.3)%</u>	<u>(2.9)%</u>

The following paragraphs discuss the Company's performance for the three months ended March 31, 2026 and 2025.

### RESULTS OF OPERATIONS (in thousands)

#### Net Sales

Net sales for the first quarter of 2026 were \$2,579, an increase of \$340, or 15.2%, from \$2,239 during the comparable period in 2025. The increase was primarily driven by higher sales of wired sensor products and an increase in international sales for agricultural applications.

#### Gross Profit

Gross profit for the first quarter of 2026 was \$1,322, an increase of \$238, or 22.0%, over the same period in 2025. Gross margin increased in the first quarter of 2026 to 51.3% from 48.4% during the same period in 2025. The increase in gross margin for the period was primarily due to an increase in average selling prices partially offset by increased material and labor costs across product lines.

### **Operating Expenses**

Total operating expenses increased \$287, or 22.9%, to \$1,540 for the first quarter of 2026 compared to the same period in 2025, and increased as a percentage of net sales to 59.6% from 56.0%. The increase in total operating expenses for the period was primarily due to costs associated with additional employee headcount and variable compensation related to increased sales, legal and professional expenses related to the Merger described in detail in Part I Note 8 “Subsequent Events”.

- Selling and marketing expenses in the first quarter of 2026 increased \$97 to \$517, or 23.1%, from the same period in 2025, and increased as a percentage of net sales to 20.0% from 18.8%. The increase in selling and marketing expenses for the period was primarily due to higher compensation and benefits due to the hiring of additional sales headcount and variable sales compensation related to the increase in sales and sales headcount.
- General and administrative expenses increased \$162 to \$749, or 27.6%, in the first quarter of 2026 compared to the same period in 2025, and increased as a percentage of net sales to 29.0% from 26.2%. The increase in general and administrative expenses for the period was primarily due to increased legal and professional expenses related to the Merger.
- Research and development expenses increased \$28 to \$274, or 11.4%, in the first quarter of 2026 compared to the same period in 2025, but decreased as a percentage of net sales to 10.6% from 11.0%. The increase in research and development expense for the quarter was primarily due to higher compensation from the hiring of executive leadership.

### **Non-Operating Income**

Net non-operating income decreased \$17, or 19.3%, for the three-month period ended March 31, 2026 compared to the same period in 2025. The decrease for the period is primarily the result of lower interest income earned as a result of lower interest rates on Treasury Bills.

### **Loss Before Income Tax Benefit**

Loss before income tax benefit was \$147 in the first quarter of 2026, representing an increase of \$66 from a loss of \$81 for the same period in 2025. The increase in the loss for the period was primarily due to higher operating expenses and a decrease in interest income, partially offset by increased net sales and gross margin, as described above.

### **Income Tax Benefit**

Income tax benefit was \$31, or 1.2% of net sales, in the first quarter of 2026 compared to \$17, or 0.8% of net sales, in the first quarter of 2025. The effective tax rate for the first quarter of 2026 was 21.1% compared to 21.0% for the same period in 2025.

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$10,756 at March 31, 2026 and \$10,545 at December 31, 2025. The increase was primarily the result of an increase in cash generated from financing activities.

Cash from operating activities was \$68 for the three months ended March 31, 2026 compared to cash used from operating activities of \$30 for the three months ended March 31, 2025. The \$98 increase was due primarily to a decrease in trade receivables, partially offset by an increase in net loss. The decrease in trade receivables was due to the timing of customer payments. The increase in net loss was primarily due to expenses related to the Merger.

Cash used in investing activities was \$28 for the three months ended March 31, 2026. The cash used was for the purchase of office equipment. There was no cash used for investing activities for the three months ended March 31, 2025.

Cash flows from financing activities was \$171 for the three months ended March 31, 2026. In February 2026, the Company's president exercised 50,000 stock options for a total exercise price of \$171. There was no cash flow from financing activities in the three months ended March 31, 2025.

Subject to the following section, entitled "Supply Chain and Labor Dynamics," the Company believes its ongoing cash requirements will be primarily for capital expenditures, research and development, working capital, corporate and business development, and in conjunction with the Merger and that existing cash, cash equivalents, and investments and any cash generated from operations will be sufficient to meet these cash requirements through at least the next 12 months.

## **Supply Chain and Labor Dynamics**

We purchase parts and materials from various manufacturers and distributors. While we believe our supply chain has generally stabilized, we occasionally see unexpected price increases and delivery delays requiring us to intervene and remediate. To meet these challenges, we seek additional sources for components and modify product designs to accommodate new components that are more readily available at competitive prices. There is no guarantee that we will continue to be successful in modifying these designs and sourcing alternative components and material. As a result, we could experience significant delays in receiving certain components needed to make timely customer deliveries, as well as increased costs that erode gross margins. Current supply chain dynamics may have a negative effect on the efficiency of our operations, our customer base, and the domestic or worldwide economy. Changes in general economic and financial conditions, inflationary pressures, the potential for economic recession in the U.S., tariffs and trade restrictions, including the imposition of new and higher tariffs on imported goods, the uncertainty of evolving tariffs, and retaliatory tariffs implemented by other countries on U.S. goods may have a negative impact on our business and results of operations. We continually monitor and attempt to remediate negative situations as they occur. However, we may not be able to fully remediate or offset costs, all of which could have a material negative impact on our business and results of operations.

Furthermore, the labor market for qualified employees able to fill our various open positions is challenging and becoming more costly. These factors may result in delays in filling these positions and negatively impact profit margins. In addition, we may experience changes in transportation and freight availability that may make it difficult to have materials and components shipped to us, or our products shipped to customers, in a timely and cost-effective manner. While we continue to closely monitor and manage each of these activities, our actions may not be successful and may result in a negative effect on our sales and profit margins.

### ***Future Corporate and Business Development Activities***

On April 20, 2026, the Company entered into the Merger Agreement. For additional information, see Part I, Note 8 “Subsequent Events”. The Company currently expects the Merger to close in the second quarter of 2026 but the exact timing of the completion of the Merger is not certain.

### ***Off-balance Sheet Arrangements***

As of March 31, 2026, the Company had no off-balance sheet arrangements or transactions.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not Applicable.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Based on an evaluation with the participation of the Company's management, the Company's principal executive officer and principal financial officer has concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), were effective as of March 31, 2026.

#### ***Changes in Internal Control Over Financial Reporting***

There were no changes in the Company's internal control over financial reporting during the first quarter of 2026 that were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings – None**

### **Item 1A. Risk Factors – Not Applicable**

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None**

### **Item 3. Defaults Upon Senior Securities – None**

### **Item 4. Mine Safety Disclosures – Not Applicable**

### **Item 5. Other Information – None**

### **Item 6. Exhibits**

<u>Exhibit</u>	<u>Description</u>
<a href="#">31.1</a>	<a href="#">Certification of CEO and CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.1</a>	<a href="#">Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	The following financial information from Electro-Sensors, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2026, formatted in iXBRL (Inline Extensible Business Reporting Language), (i) Condensed Balance Sheets as of March 31, 2026 and December 31, 2025, (ii) Condensed Statements of Operations for the three months ended March 31, 2026 and March 31, 2025, (iii) Condensed Statements of Changes in Stockholders' Equity for the three months ended March 31, 2026 and March 31, 2025, (iv) Condensed Statements of Cash Flows for the three months ended March 31, 2026 and March 31, 2025, and (v) Notes to Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL) and contained in Exhibit 101.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Electro-Sensors, Inc.**

May 14, 2026

/s/ David L. Klenk

David L. Klenk  
Chief Executive Officer and Chief Financial Officer  
(Principal Executive Officer and Principal Financial  
Officer)

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

I, David L. Klenk, certify that:

1. I have reviewed this report on Form 10-Q of Electro-Sensors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 14, 2026

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

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

In connection with the Quarterly Report of Electro-Sensors, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2026 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Klenk, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 14, 2026

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