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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 June 30, 2025**

**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 August 11, 2025 was 3,449,021.

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**ELECTRO-SENSORS, INC.**  
**Form 10-Q**  
**For the Period Ended June 30, 2025**

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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)

	June 30, 2025	December 31, 2024
	(unaudited)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,182	\$ 9,948
Investments	56	56
Trade receivables, less allowance for credit losses of \$28 and \$11, respectively	1,282	1,309
Inventories, net	2,010	1,964
Other current assets	180	197
Income tax receivable	72	0
<b>Total current assets</b>	<b>13,782</b>	<b>13,474</b>
<b>Deferred income tax asset, net</b>	<b>501</b>	<b>501</b>
<b>Property and equipment, net</b>	<b>877</b>	<b>910</b>
<b>Total assets</b>	<b>\$ 15,160</b>	<b>\$ 14,885</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 287	\$ 146
Accrued expenses	482	365
Accrued income taxes	0	41
<b>Total current liabilities</b>	<b>769</b>	<b>552</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Common stock par value \$0.10 per share; authorized 10,000,000 shares; 3,449,021 shares issued and outstanding	344	344
Additional paid-in capital	2,423	2,360
Retained earnings	11,624	11,629
<b>Total stockholders' equity</b>	<b>14,391</b>	<b>14,333</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 15,160</b>	<b>\$ 14,885</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 June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
<b>Net sales</b>	<b>\$ 2,400</b>	<b>\$ 2,217</b>	<b>\$ 4,639</b>	<b>\$ 4,461</b>
<b>Cost of goods sold</b>	<b>1,172</b>	<b>1,170</b>	<b>2,327</b>	<b>2,334</b>
<b>Gross profit</b>	<b>1,228</b>	<b>1,047</b>	<b>2,312</b>	<b>2,127</b>
<b>Operating expenses</b>				
Selling and marketing	441	353	861	704
General and administrative	575	537	1,162	1,104
Research and development	214	264	460	526
<b>Total operating expenses</b>	<b>1,230</b>	<b>1,154</b>	<b>2,483</b>	<b>2,334</b>
<b>Operating loss</b>	<b>(2)</b>	<b>(107)</b>	<b>(171)</b>	<b>(207)</b>
<b>Non-operating income</b>				
Interest expense	(6)	0	(6)	0
Interest income	88	109	176	225
<b>Total non-operating income, net</b>	<b>82</b>	<b>109</b>	<b>170</b>	<b>225</b>
<b>Income (loss) before income tax expense</b>	<b>80</b>	<b>2</b>	<b>(1)</b>	<b>18</b>
<b>Income tax expense</b>	<b>21</b>	<b>6</b>	<b>4</b>	<b>11</b>
<b>Net income (loss)</b>	<b>\$ 59</b>	<b>\$ (4)</b>	<b>\$ (5)</b>	<b>\$ 7</b>
<b>Net income per share data:</b>				
<b>Basic</b>				
Net income per share	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.00
Weighted average shares	3,449,021	3,428,021	3,449,021	3,428,021
<b>Diluted</b>				
Net income per share	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.00
Weighted average shares	3,550,957	3,428,021	3,449,021	3,428,021

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 June 30**

	<u>Common Stock Issued</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Equity</u>
March 31, 2025 (unaudited)	3,449,021	\$ 344	\$ 2,391	\$ 11,565	\$ 14,300
Stock-based compensation expense			32		32
Net income				59	59
<b>Balance June 30, 2025 (unaudited)</b>	<b><u>3,449,021</u></b>	<b><u>\$ 344</u></b>	<b><u>\$ 2,423</u></b>	<b><u>\$ 11,624</u></b>	<b><u>\$ 14,391</u></b>
March 31, 2024 (unaudited)	3,428,021	\$ 342	\$ 2,259	\$ 11,194	\$ 13,795
Stock-based compensation expense			38		38
Net loss				(4)	(4)
<b>Balance June 30, 2024 (unaudited)</b>	<b><u>3,428,021</u></b>	<b><u>\$ 342</u></b>	<b><u>\$ 2,297</u></b>	<b><u>\$ 11,190</u></b>	<b><u>\$ 13,829</u></b>

**For the six months ended June 30**

	<u>Common Stock Issued</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Equity</u>
December 31, 2024	3,449,021	\$ 344	\$ 2,360	\$ 11,629	\$ 14,333
Stock-based compensation expense			63		63
Net loss				(5)	(5)
<b>Balance June 30, 2025 (unaudited)</b>	<b><u>3,449,021</u></b>	<b><u>\$ 344</u></b>	<b><u>\$ 2,423</u></b>	<b><u>\$ 11,624</u></b>	<b><u>\$ 14,391</u></b>
December 31, 2023	3,428,021	\$ 342	\$ 2,230	\$ 11,183	\$ 13,755
Stock-based compensation expense			67		67
Net income				7	7
<b>Balance June 30, 2024 (unaudited)</b>	<b><u>3,428,021</u></b>	<b><u>\$ 342</u></b>	<b><u>\$ 2,297</u></b>	<b><u>\$ 11,190</u></b>	<b><u>\$ 13,829</u></b>

See accompanying notes to unaudited condensed financial statements

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

	Six Months Ended June 30,	
	2025	2024
<b>Cash flows from operating activities</b>		
<b>Net income (loss)</b>	<b>\$ (5)</b>	<b>\$ 7</b>
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	45	47
Deferred income taxes	0	25
Stock-based compensation expense	63	67
Change in allowance for credit losses	17	0
Loss on disposal of fixed assets	1	0
Change in:		
Trade receivables	10	103
Inventories	(46)	(114)
Other current assets	17	2
Accounts payable	141	(92)
Accrued expenses	117	116
Income tax payable/receivable	(113)	(117)
<b>Net cash from operating activities</b>	<b>247</b>	<b>44</b>
<b>Cash flows used in investing activities</b>		
Purchase of property and equipment	(13)	(26)
<b>Net cash used in investing activities</b>	<b>(13)</b>	<b>(26)</b>
<b>Net increase in cash and cash equivalents</b>	<b>234</b>	<b>18</b>
Cash and cash equivalents, beginning	9,948	9,870
Cash and cash equivalents, ending	<u>\$ 10,182</u>	<u>\$ 9,888</u>
<b>Supplemental cash flow information</b>		
Cash paid for income taxes	<u>\$ 117</u>	<u>\$ 101</u>
Cash paid for interest	<u>6</u>	<u>0</u>

See accompanying notes to unaudited condensed financial statements

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED JUNE 30, 2025**  
**(in thousands except share and per share amounts)**  
(unaudited)

**Note 1. Basis of Presentation**

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, 2024, including the audited financial statements and footnotes therein.

Management believes that the unaudited financial statements include all adjustments, consisting of normal recurring accruals, necessary to fairly state the Company's financial position as of June 30, 2025 and results of operations for the three and six-month periods ended June 30, 2025 and 2024, 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 \$7,973 and \$7,980 as of June 30, 2025 and December 31, 2024, 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.



**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED JUNE 30, 2025**  
**(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 allowance for credit losses was \$28 and \$11 at June 30, 2025 and December 31, 2024, 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 June 30, 2025 and December 31, 2024, 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 JUNE 30, 2025**  
**(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. Actual results could differ from those estimates. 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. It is at least reasonably possible that these estimates may change in the near term.

**Net Income per Common Share**

Basic income per share excludes dilution and is determined by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income 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 periods ended June 30, 2025, and 2024, 83,064 and 175,000, 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. For the six-month periods ended June 30, 2025 and 2024, 185,000 and 175,000 respectively, weighted average common shares for underlying stock options have been excluded from the calculation of diluted EPS for the same reason.

In addition, for each of the three and six-month periods ended June 30, 2025, and 2024, 84,000 and 105,000, respectively, restricted stock units have been excluded from the calculation of diluted EPS because their effect would be anti-dilutive.

**New Accounting Pronouncement Adopted**

In December 2023, the FASB issued ASU No. 223-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The updates in this ASU are effective for annual periods beginning after December 15, 2024. The adoption will result in disclosure changes only.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED JUNE 30, 2025**  
(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>June 30, 2025</b>				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
<b>Total Investments, June 30, 2025</b>	<u>\$ 54</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 56</u>
<b>December 31, 2024</b>				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
<b>Total Investments, December 31, 2024</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.

**June 30, 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

**December 31, 2024**

	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 and six-month periods ended June 30, 2025 and 2024.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED JUNE 30, 2025**  
(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:

	June 30, 2025	December 31, 2024
Raw Materials	\$ 1,300	\$ 1,334
Work In Process	365	301
Finished Goods	365	339
Reserve for Obsolescence	(20)	(10)
<b>Total Inventories, net</b>	<b>\$ 2,010</b>	<b>\$ 1,964</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 June 30, 2025, the total unrecognized compensation expense related to outstanding stock options was \$95, which the Company expects to recognize through October 2028. The Company recognized compensation expense in connection with the vesting of stock options of \$10 and \$20 for the three and six months ended June 30, 2025, respectively. The Company recognized compensation expense in connection with the vesting of stock options of \$16 and \$24 for the three and six months ended June 30, 2024, respectively.

There were no stock options granted or exercised in the six months ended June 30, 2025.

During the second quarter of 2024, the Company granted 25,000 non-qualified stock options to a non-employee board member. The options vested 20% on the grant date, with an additional 20% vesting annually thereafter. There were no stock options exercised in the six months ended June 30, 2024.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED JUNE 30, 2025**  
**(in thousands except share and per share amounts)**  
(unaudited)

**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 June 30, 2025, the total unrecognized compensation expenses related to outstanding restricted stock units is \$273, which the Company expects to recognize through August 2028. The Company recognized compensation expense in connection with the vesting of restricted stock units of \$22 and \$43 for the three and six months ended June 30, 2025, respectively. The Company recognized compensation expense in connection with the vesting of restricted stock units of \$22 and \$43 for the three and six months ended June 30, 2024, respectively.

There were no restricted stock units granted in the six months ended June 30, 2025 and 2024.

**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.

**ELECTRO-SENSORS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED JUNE 30, 2025**  
**(in thousands except share and per share amounts)**  
(unaudited)

**Note 8. Subsequent Events**

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act ("OBBBA"). The OBBBA codifies certain key elements of the Tax Cuts and Jobs Act, including making permanent the 100% bonus depreciation on qualified fixed assets, making permanent the immediate deduction for domestic research and experimentation expenses, and permanently changing the limitation on the deduction of business interest expense. ASC 740 "Income Taxes," requires that the effect of changes in tax rates and laws on deferred taxes be recognized in the period in which the applicable legislation is enacted. Consequently, as of the date of enactment, and during the three months ended September 30, 2025, the Company will evaluate all deferred tax balances under the newly enacted tax law and identify any other changes required to the financial statements as a result of the OBBBA. The Company is still evaluating the impact of the OBBBA and anticipates the results of such evaluation will be reflected in the Company's Form 10-Q for the quarter ended September 30, 2025.

On August 7, 2025, Michael Zipoy provided the Board with notice that he will be retiring from the Board effective as of August 8, 2025. Mr. Zipoy has served on the Board since 2012 and was most recently a member of the Audit, Compensation, and Nominating Committees of the Board. In recognition of his valuable service to the Board, the vesting of Mr. Zipoy's outstanding options and RSU awards was accelerated.

## **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, and (xi) our future cash requirements and use of cash.

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, 2024.

### **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, 2024. There have been no changes to our critical accounting estimates during the three and six-month periods ended June 30, 2025.

## Recent Developments

On August 7, 2025, Michael Zipoy provided the Board with notice that he will be retiring from the Board effective as of August 8, 2025. Mr. Zipoy has served on the Board since 2012 and was most recently a member of the Audit, Compensation, and Nominating Committees of the Board. In recognition of his valuable service to the Board, the vesting of Mr. Zipoy's outstanding options and RSU awards was accelerated.

## 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 June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Net sales	100.0%	100.0%	100.0	100.0%
Cost of goods sold	48.8	52.8	50.2	52.3
Gross profit	51.2	47.2	49.8	47.7
Operating expenses				
Selling and marketing	18.4	15.9	18.6	15.8
General and administrative	24.0	24.2	25.0	24.7
Research and development	8.9	11.9	9.9	11.8
Total operating expenses	51.3	52.0	53.5	52.3
Operating loss	(0.1)	(4.8)	(3.7)	(4.6)
Non-operating income				
Interest expense	(0.3)	0	(0.1)	0
Interest income	3.7	4.9	3.8	5.0
Total non-operating income, net	3.4	4.9	3.7	5.0
Income (loss) before income tax expense	3.3	0.1	(0.0)	0.4
Income tax expense	0.9	0.3	0.1	0.2
Net income (loss)	2.4%	(0.2)%	(0.1)	0.2

The following paragraphs discuss the Company's performance for the three and six months ended June 30, 2025 and 2024.

## RESULTS OF OPERATIONS (in thousands)

### Net Sales

Net sales for the second quarter of 2025 were \$2,400, an increase of \$183, or 8.3%, from \$2,217 during the comparable period in 2024. Net sales for the six months ended June 30, 2025 were \$4,639, an increase of \$178, or 4.0%, from \$4,461 during the comparable period in 2024. The increase during the three-month period was primarily driven by increased sales to international and OEM customers.



### **Gross Profit**

Gross profit for the second quarter of 2025 was \$1,228, an increase of \$181, or 17.3%, over the same period in 2024. Gross profit for the six months ended June 30, 2025 was \$2,312, an increase of \$185, or 8.7%, over the same period in 2024. Gross margin increased in the second quarter of 2025 to 51.2% from 47.2% during the same period in 2024. Gross margin for the six months ended June 30, 2025 increased to 49.8% from 47.7% over the same period in 2024. The increase in gross margin for both periods was due to an increase in average selling prices implemented to partially offset increased material costs.

### **Operating Expenses**

Total operating expenses increased \$76, or 6.6%, to \$1,230 for the second quarter of 2025 compared to the same period in 2024, and decreased as a percentage of net sales to 51.3% from 52.0%. Total operating expenses increased \$149, or 6.4%, to \$2,483 for the six months ended June 30, 2025 compared to the same period in 2024, and increased as a percentage of net sales to 53.5% from 52.3%. The increase in total operating expenses for both periods was primarily due to costs associated with additional employee headcount.

- Selling and marketing expenses in the second quarter of 2025 increased \$88 to \$441, or 24.9%, from the same period in 2024, and increased as a percentage of net sales to 18.4% from 15.9%. Selling and marketing expenses in the six months ended June 30, 2025 increased \$157 to \$861, or 22.3%, from the same period in 2024, and increased as a percentage of net sales to 18.6% from 15.8%. The increase in selling and marketing expenses for both periods was primarily due to higher wages and benefits due to the hiring of sales leadership.
- General and administrative expenses increased \$38 to \$575, or 7.1%, in the second quarter of 2025 compared to the same period in 2024, but decreased as a percentage of net sales to 24.0% from 24.2%. General and administrative expenses increased \$58 to \$1,162, or 5.3%, in the six months ended June 30, 2025 compared to the same period in 2024, and increased as a percentage of net sales to 25.0% from 24.7%. The increase in general and administrative expenses for both periods was primarily due to the timing of independent auditor expenses and nonreimbursable sales tax expense; partially offset by a decrease in contract personnel.
- Research and development expenses decreased \$50 to \$214, or 18.9%, in the second quarter of 2025 compared to the same period in 2024, and decreased as a percentage of net sales to 8.9% from 11.9%. Research and development expenses decreased \$66 to \$460, or 12.5%, in the six months ended June 30, 2025 compared to the same period in 2024, and decreased as a percentage of net sales to 9.9% from 11.8%. The decrease in research and development for both periods was due to reduced employee headcount.

### **Non-Operating Income**

Net non-operating income decreased \$27, or 24.8%, for the three-month period ended June 30, 2025 compared to the same period in 2024. Net non-operating income decreased \$55, or 24.4%, for the six months ended June 30, 2025 compared to the same period in 2024. The decrease for the period is the result of lower interest income earned as a result of lower interest rates on Treasury Bills.

### **Income (Loss) Before Income Tax Expense**

Income before income tax expense increased to \$80 in the second quarter of 2025, representing an increase of \$78 from \$2 for the same period in 2024. Loss before income tax expense was \$1 for the six months ended June 30, 2025, representing a decrease of \$19 from income before income taxes of \$18 for the same period in 2024. The increase in the quarter was primarily due to higher net sales and gross margin, partially offset by higher operating expenses and a decrease in interest income as described above. The decrease for the six-month period was due primarily to higher operating expenses and lower interest income as discussed above, partially offset by higher net sales and gross margin.

### **Income Tax Expense**

Income tax expense was \$21, or 0.9% of net sales, in the second quarter of 2025 compared to \$6, or 0.3% of net sales, in the second quarter of 2024. Income tax expense was \$4, or 0.1% of net sales for the six months ended June 30, 2025 compared to \$11, or 0.2% of net sales for the six months ended 2024. The effective tax rate for the second quarter of 2025 was 26.3% compared to 300.0% for the same period in 2024. The effective tax rate for the six-month period ended June 30, 2025 was 400.0% compared to 61.1% in the same period of 2024. The 2025 effective tax rate for the six-month period ended June 30, 2025 was higher than normal due to the adjustment of the calendar year 2024 balance due. The 2024 effective income tax rate for both periods was higher than normal due to the write-off of deferred tax assets in conjunction with the expiration of unexercised stock options in the period.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$10,182 at June 30, 2025 and \$9,948 at December 31, 2024. The increase was primarily the result of an increase in cash from operating activities.

Cash from operating activities was \$247 for the six months ended June 30, 2025 compared to \$44 for the six months ended June 30, 2024. The \$203 increase was due primarily to an increase in accounts payable and a decrease in accounts receivable, partially offset by an increase in inventory. The increase in accounts payable is due to the timing of payments. The decrease in accounts receivable is due to the timing of customer payments. The increase in inventory is due to the timing of customer sales.

Cash used in investing activities was \$13 and \$26 for the six months ended June 30, 2025 and 2024, respectively. The cash used was for the purchase of office equipment.

There was no cash flow from financing activities in the six months ended June 30, 2024 and 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 other strategic alternatives 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 begun to stabilize, we still occasionally see unexpected price increases and delivery delays requiring us to intervene and remediate. To meet these challenges, we are seeking additional sources for components and modifying 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 will monitor and attempt to remediate 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***

We continue to seek growth opportunities, both internally through our existing portfolio of products, technologies, and markets, as well as externally through technology partnerships or related-product or business acquisitions. In addition, we may make strategic or other investments that we believe present good opportunities for the Company and its shareholders. The Company's Board of Directors has established a special committee and continues to explore business development and other strategic alternatives.

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

As of June 30, 2025, 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 June 30, 2025.

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

There were no changes in the Company's internal control over financial reporting during the second quarter of 2025 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**

<b>Exhibit</b>	<b>Description</b>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of CEO and CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>32.1</u></a>	<a href="#"><u>Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101	The following financial information from Electro-Sensors, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2025, formatted in iXBRL (Inline Extensible Business Reporting Language), (i) Condensed Balance Sheets as of June 30, 2025 and December 31, 2024, (ii) Condensed Statements of Operations for the three and six months ended June 30, 2025 and June 30, 2024, (iii) Condensed Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2025 and June 30, 2024, (iv) Condensed Statements of Cash Flows for the six months ended June 30, 2025 and June 30, 2024, 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.**

August 12, 2025

/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.

August 12, 2025

\_\_\_\_\_  
/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 June 30, 2025 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.

August 12, 2025

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