
**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 September 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 ☐

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 November 12, 2025 was 3,480,521.

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

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	4
<u>Item 1. Financial Statements (unaudited):</u>	4
<u>Condensed Balance Sheets – As of September 30, 2025 and December 31, 2024</u>	4
<u>Condensed Statements of Operations – For the Three and Nine Months Ended September 30, 2025 and September 30, 2024</u>	5
<u>Condensed Statements of Changes in Stockholders' Equity – For the Three and Nine Months Ended September 30, 2025 and September 30, 2024</u>	6
<u>Condensed Statements of Cash Flows – For the Nine Months Ended September 30, 2025 and September 30, 2024</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>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 4. Controls and Procedures</u>	19
<u>PART II – OTHER INFORMATION</u>	20
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
<u>Item 3. Defaults Upon Senior Securities</u>	20
<u>Item 4. Mine Safety Disclosures</u>	20
<u>Item 5. Other Information</u>	20
<u>Item 6. Exhibits</u>	20
<u>SIGNATURES</u>	21

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ELECTRO-SENSORS, INC. CONDENSED BALANCE SHEETS (in thousands except share and per share amounts)

	September 30, 2025 (unaudited)	December 31, 2024
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,571	\$ 9,948
Investments	56	56
Trade receivables, less allowance for credit losses of \$36 and \$11, respectively	1,425	1,309
Inventories, net	2,070	1,964
Other current assets	246	197
Income tax receivable	72	0
Total current assets	14,440	13,474
Deferred income tax asset, net	437	501
Property and equipment, net of accumulated depreciation of \$1,708 and \$1,664, respectively	860	910
Total assets	\$ 15,737	\$ 14,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 381	\$ 146
Accrued expenses	668	365
Accrued income tax	0	41
Total current liabilities	1,049	552
Commitments and contingencies		
Stockholders' equity		
Common stock par value \$0.10 per share; authorized 10,000,000 shares; 3,480,521 and 3,449,021 shares issued and outstanding, respectively	348	344
Additional paid-in capital	2,508	2,360
Retained earnings	11,832	11,629
Total stockholders' equity	14,688	14,333
Total liabilities and stockholders' equity	\$ 15,737	\$ 14,885

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 September 30		Nine Months Ended September 30	
	2025	2024	2025	2024
Net sales	\$ 2,748	\$ 2,512	\$ 7,387	\$ 6,973
Cost of goods sold	1,290	1,247	3,617	3,581
Gross profit	1,458	1,265	3,770	3,392
Operating expenses				
Selling and marketing	434	340	1,295	1,044
General and administrative	606	517	1,768	1,621
Research and development	237	235	697	761
Total operating expenses	1,277	1,092	3,760	3,426
Operating income (loss)	181	173	10	(34)
Non-operating income				
Interest expense	0	0	(6)	0
Interest income	91	117	267	342
Total non-operating income, net	91	117	261	342
Income before income tax expense	272	290	271	308
Income tax expense	64	52	68	63
Net income	\$ 208	\$ 238	\$ 203	\$ 245
Net income per share data:				
Basic				
Net income per share	\$ 0.06	\$ 0.07	\$ 0.06	\$ 0.07
Weighted average shares	3,462,564	3,428,021	3,453,585	3,428,021
Diluted				
Net income per share	\$ 0.06	\$ 0.07	\$ 0.06	\$ 0.07
Weighted average shares	3,473,921	3,434,417	3,453,585	3,440,382

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 September 30

	<u>Common Stock Issued</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
June 30, 2025	3,449,021	\$ 344	\$ 2,423	\$ 11,624	\$ 14,391
Restricted stock units vested	31,500	4	(4)		0
Stock-based compensation expense			89		89
Net income				208	208
Balance September 30, 2025 (unaudited)	<u>3,480,521</u>	<u>\$ 348</u>	<u>\$ 2,508</u>	<u>\$ 11,832</u>	<u>\$ 14,688</u>
June 30, 2024	3,428,021	\$ 342	\$ 2,297	\$ 11,190	\$ 13,829
Stock-based compensation expense			31		31
Net income				238	238
Balance September 30, 2024 (unaudited)	<u>3,428,021</u>	<u>\$ 342</u>	<u>\$ 2,328</u>	<u>\$ 11,428</u>	<u>\$ 14,098</u>

For the nine months ended September 30

	<u>Common Stock Issued</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2024	3,449,021	\$ 344	\$ 2,360	\$ 11,629	\$ 14,333
Restricted stock units vested	31,500	4	(4)		0
Stock-based compensation expense			152		152
Net income				203	203
Balance, September 30, 2025	<u>3,480,521</u>	<u>\$ 348</u>	<u>\$ 2,508</u>	<u>\$ 11,832</u>	<u>\$ 14,688</u>
Balance, December 31, 2023	3,428,021	\$ 342	\$ 2,230	\$ 11,183	\$ 13,755
Stock-based compensation expense			98		98
Net income				245	245
Balance, September 30, 2024	<u>3,428,021</u>	<u>\$ 342</u>	<u>\$ 2,328</u>	<u>\$ 11,428</u>	<u>\$ 14,098</u>

See accompanying notes to unaudited condensed financial statements

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

	Nine Months Ended September 30	
	2025	2024
Cash flows from operating activities		
Net income	\$ 203	\$ 245
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	68	70
Deferred income taxes	64	68
Stock-based compensation expense	152	98
Change in allowance for credit losses	25	0
Loss on disposal of fixed assets	1	0
Change in:		
Trade receivables	(141)	101
Inventories	(106)	(252)
Other current assets	(49)	(61)
Accounts payable	235	(71)
Accrued expenses	303	316
Income tax payable/receivable	(113)	(108)
Net cash from operating activities	642	406
Cash flows used in investing activities		
Purchase of property and equipment	(19)	(30)
Net cash used in investing activities	(19)	(30)
Net increase in cash and cash equivalents	623	376
Cash and cash equivalents, beginning	9,948	9,870
Cash and cash equivalents, ending	<u>\$ 10,571</u>	<u>\$ 10,246</u>
Supplemental cash flow information		
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 SEPTEMBER 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 condensed financial statements include all adjustments, consisting of normal recurring accruals, necessary to fairly state the Company's financial position as of September 30, 2025 and results of operations for the three and nine-month periods ended September 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 \$7,977 and \$7,980 as of September 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 SEPTEMBER 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 \$36 and \$11 at September 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 September 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 SEPTEMBER 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. 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 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 period ended September 30, 2025, and 2024, 173,643 and 168,604, 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 nine months ended September 30, 2025 and 2024, 185,000 and 162,639, 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 nine-month periods ended September 30, 2025, and 2024, 52,500 and 105,000 restricted stock units, respectively, 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. 2023-09 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 SEPTEMBER 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
September 30, 2025				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
Total Investments, September 30, 2025	<u>\$ 54</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 56</u>
December 31, 2024				
Equity Securities	\$ 54	\$ 2	\$ 0	\$ 56
Total Investments, December 31, 2024	<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.

September 30, 2025

	Carrying amount in balance sheet	Fair Value	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
Assets:					
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
Assets:					
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 nine months ended September 30, 2025 and 2024.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 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:

	September 30, 2025	December 31, 2024
Raw Materials	\$ 1,351	\$ 1,334
Work In Process	304	301
Finished Goods	435	339
Reserve for Obsolescence	(20)	(10)
Total Inventories, net	\$ 2,070	\$ 1,964

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 September 30, 2025, the total unrecognized compensation expense related to outstanding stock options was \$71, which the Company expects to recognize through October 2028. The Company recognized compensation expense in connection with the vesting of stock options of \$25 and \$45 for the three and nine months ended September 30, 2025, respectively. The Company recognized compensation expense in connection with the vesting of stock options of \$9 and \$33 for the three and nine months ended September 30, 2024, respectively.

There were no stock options granted or exercised in the nine months ended September 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 in the nine months ended September 30, 2024.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 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 September 30, 2025, the total unrecognized compensation expense related to outstanding restricted stock units is \$210, which the Company expects to recognize through August 2028. The Company recognized compensation expense in connection with the vesting of restricted stock units of \$64 and \$107 for the three and nine months ended September 30, 2025, respectively. The Company recognized compensation expense in connection with the vesting of restricted stock units of \$22 and \$65 for the three and nine months ended September 30, 2024, respectively.

There were no restricted stock units granted in the nine months ended September 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.

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 nine-month periods ended September 30, 2025.

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 September 30		Nine months ended September 30	
	2025	2024	2025	2024
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	46.9	49.6	49.0	51.4
Gross profit	53.1	50.4	51.0	48.6
Operating expenses				
Selling and marketing	15.8	13.5	17.5	15.0
General and administrative	22.1	20.6	23.9	23.2
Research and development	8.6	9.4	9.4	10.9
Total operating expenses	46.5	43.5	50.8	49.1
Operating income (loss)	6.6	6.9	0.2	(0.5)
Non-operating income				
Interest expense	0	0	(0.1)	0
Interest income	3.3	4.7	3.6	4.9
Total non-operating income, net	3.3	4.7	3.5	4.9
Income before income tax expense	9.9	11.6	3.7	4.4
Income tax expense	2.3	2.1	0.9	0.9
Net income	7.6 %	9.5 %	2.8 %	3.5 %

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

RESULTS OF OPERATIONS (in thousands)

Net Sales

Net sales for the third quarter of 2025 were \$2,748, an increase of \$236, or 9.4%, from \$2,512 during the comparable period in 2024. Net sales for the nine months ended September 30, 2025 were \$7,387, an increase of \$414, or 5.9%, from \$6,973 during the comparable period in 2024. The increase during the three and nine-month periods were primarily driven by increased sales to industrial automation and OEM customers.

Gross Profit

Gross profit for the third quarter of 2025 was \$1,458, an increase of \$193, or 15.3%, over the same period in 2024. Gross profit for the nine months ended September 30, 2025 was \$3,770, an increase of \$378, or 11.1%, over the same period in 2024. Gross margin increased in the third quarter of 2025 to 53.1% from 50.4% during the same period in 2024. Gross margin for the nine months ended September 30, 2025 increased to 51.0% from 48.6% over the same period in 2024. The increase in gross margin for both periods was due to an increase in average selling prices implemented over the last twelve months to partially offset increased material costs.

Operating Expenses

Total operating expenses increased \$185, or 16.9%, to \$1,277 for the third quarter of 2025 compared to the same period in 2024, and increased as a percentage of net sales to 46.5% from 43.5%. Total operating expenses increased \$334, or 9.7%, to \$3,760 for the nine months ended September 30, 2025 compared to the same period in 2024, and increased as a percentage of net sales to 50.9% from 49.1%. The increase in total operating expenses for both periods was primarily due to costs associated with additional employee headcount and variable compensation related to increased sales and stock compensation expense related to the acceleration of vesting of equity awards for a retired board member.

- Selling and marketing expenses in the third quarter of 2025 increased \$94 to \$434, or 27.6%, from the same period in 2024, and increased as a percentage of net sales to 15.8% from 13.5%. Selling and marketing expenses in the nine months ended September 30, 2025 increased \$251 to \$1,295, or 24.0%, from the same period in 2024, and increased as a percentage of net sales to 17.5% from 15.0%. The increase in selling and marketing expenses for both periods was primarily due to higher compensation and benefits due to the hiring of sales leadership and variable sales compensation related to the increase in sales.
- General and administrative expenses increased \$89 to \$606, or 17.2%, in the third quarter of 2025 compared to the same period in 2024, and increased as a percentage of net sales to 22.1% from 20.6%. General and administrative expenses increased \$147 to \$1,768, or 9.1%, in the nine months ended September 30, 2025 compared to the same period in 2024, and increased as a percentage of net sales to 23.9% from 23.2%. The increase in general and administrative expenses for both periods was primarily due to stock compensation expense resulting from the accelerated vesting of equity awards for a retired board member and an increase in the allowance for credit losses.
- Research and development expenses increased \$2 to \$237, or 0.9%, in the third quarter of 2025 compared to the same period in 2024, but decreased as a percentage of net sales to 8.6% from 9.4%. Research and development expenses decreased \$64 to \$697, or 8.4%, in the nine months ended September 30, 2025 compared to the same period in 2024, and decreased as a percentage of net sales to 9.4% from 10.9%. The increase in research and development expense for the quarter was due to increased engineering costs related to product development and enhancements, offset by a decrease in compensation and benefits due to lower employee headcount. The net decrease for the nine-month period was due to the decrease in employee headcount, partially offset by an increase in engineering costs related to product development and enhancements.

Non-Operating Income

Net non-operating income decreased \$26, or 22.2%, for the three-month period ended September 30, 2025 compared to the same period in 2024. Net non-operating income decreased \$81, or 23.7%, for the nine months ended September 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 Before Income Tax Expense

Income before income tax expense decreased to \$272 in the third quarter of 2025, representing decrease of \$18 from \$290 for the same period in 2024. Income before income tax expense was \$271 for the nine months ended September 30, 2025, representing a decrease of \$37 from \$308 for the same period in 2024. The decrease for both periods 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 Expense

Income tax expense was \$64, or 2.3% of net sales, in the third quarter of 2025 compared to \$52, or 2.1% of net sales, in the third quarter of 2024. Income tax expense was \$68, or 0.9% of net sales for the nine months ended September 30, 2025 compared to \$63, or 0.9% of net sales for the nine months ended September 30, 2024. The effective tax rate for the third quarter of 2025 was 23.5% compared to 18.0% for the same period in 2024. The effective tax rate for the nine months ended September 30, 2025 was 25.0% compared to 20.5% for the same period of 2024. The 2025 effective tax rate for the nine months ended September 30, 2025 was higher due to the timing of differences between tax and book deductions primarily resulting from a change in research and development expense treatment.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$10,571 at September 30, 2025 and \$9,948 at December 31, 2024. The increase was primarily the result of an increase in cash generated from operating activities.

Cash from operating activities was \$642 for the nine months ended September 30, 2025 compared to \$406 for the nine months ended September 30, 2024. The \$236 increase was due primarily to an increase in accounts payable and noncash expenditures, partially offset by an increase in accounts receivable. The increase in accounts payable is due to the timing of payments and receipt of inventory. The increase in accounts receivable is due to the increase in net sales.

Cash used in investing activities was \$19 and \$30 for the nine months ended September 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 nine months ended September 30, 2025 and 2024.

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 generally stabilized, 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 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

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 September 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 September 30, 2025.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the third 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

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

November 13, 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.

November 13, 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 September 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.

November 13, 2025

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