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Nortech Systems Reports Second Quarter Results

MINNEAPOLIS – Aug. 12, 2009 – Nortech Systems Incorporated (NASDAQ: NSYS) today reported net sales of \$19.9 million for the second quarter ended June 30, 2009, compared with net sales of \$32.0 million for the second quarter of 2008. After restructuring costs, the operating loss for the second quarter was \$2.2 million, compared with operating income of \$1.1 million for the second quarter of 2008. The company reported a net loss of \$1.5 million, or \$0.56 per diluted common share, compared with net income of \$552,000, or \$0.20 per diluted common share, for the second quarter of 2008.

During the second quarter of 2009, operating profits improved sequentially by 26 percent before restructuring costs. Nortech Systems reported restructuring and impairment charges in the second quarter of \$645,000, or \$0.14 per diluted common share. Excluding these costs, the quarterly net loss would have been \$0.42 per diluted common share, a sequential improvement over the \$0.47 loss per diluted common share reported in the first quarter of 2009, on lower revenue.

The company generated \$1.3 million of positive cash flow from operations during the second quarter of 2009 after using \$3.1 million in the first quarter. Last week the company entered into a second amended and restated credit agreement with Wells Fargo Bank, which provides a \$12 million line of credit through June 30, 2010, and a real estate term note maturing on May 31, 2012.

“We are pleased to have completed this new banking agreement, with covenants and performance requirements now tied to our current business and financial position,” said Mike Degen, president and CEO of Nortech Systems. “This new financing arrangement and our anticipated cash flows from operations will be sufficient to satisfy our working capital needs.

“Our improvements in operating profits and cash flow during the second quarter can be attributed to our cost-reduction and cash-management initiatives in the first quarter,” noted Degen. “However, the continued economic slowdown has further impacted our customers and our operations, requiring us to restructure capacity to match expected demand.”

In the second quarter, the company began to relocate personnel and production operations from its Aerospace Systems facilities in Fairmont, Minn., to its Blue Earth, Minn., facilities. Nortech also announced the closing of its printed circuit board assembly operations in Garner, Iowa; the company is consolidating operations at its facility in Merrifield, Minn. Both actions are expected to be completed by the end of this month.

“While necessary in the short term, we do not believe that cost reductions are the single path to profitability,” stated Degen. “For long-term success, we are committed to a dual strategy of cost-management initiatives and sales growth. We are maintaining our marketing and sales infrastructure, focused on servicing our customers and winning new business in spite of this very difficult economy,” he concluded.

Conference Call

Nortech Systems announces a conference call to be held at 9:00 a.m. (CDT) on Thurs., Aug. 13, 2009, to discuss the company’s second quarter results. Anyone interested in participating in the conference can access the call by dialing 877-407-8033 from within the United States, or 201-689-8033 if calling internationally. An audio webcast and replay of this conference call can be accessed at the investor relations portion of Nortech Systems’ website at www.nortechsys.com or at www.investorcalendar.com. A podcast (MP3 download) will also be available. The telephone replay will be available through Aug. 27, 2009, by dialing 877-660-6853 (from U.S.) or 201-612-7415 (International). To access the replay, the account number 286 and conference ID 329668 are both required.

About Nortech Systems, Incorporated

Nortech Systems Incorporated (www.nortechsys.com), based in Wayzata, Minn., is a full-service electronics manufacturing services (EMS) provider of wire and cable assemblies, printed circuit board assemblies, and higher-level complete box build assemblies for a wide range of industries. Markets served include industrial equipment, military/defense, medical and transportation. The company has manufacturing capabilities and operating partners in the U.S., Asia and Latin America. Nortech Systems Incorporated is traded on the NASDAQ Stock Market under the symbol NSYS.

Forward-Looking Statements

This press release contains forward-looking statements made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. While this release is based on management’s best judgment and current expectations, actual results may differ and involve a number of risks and uncertainties. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation: volatility in market conditions which may affect market supply of and demand for the company’s products; increased competition; changes in the reliability and efficiency of operating facilities or those of third parties; risks related to availability of labor; commodity and energy cost instability; general economic, financial and business conditions that could affect the company’s financial condition and results of operations; as well as risk factors listed from time to time in the company’s filings with the SEC.

Condensed Statements of Operations

	Three months ended Jun. 30, Unaudited		Six months ended Jun. 30, Unaudited	
	2009	2008	2009	2008
Net Sales	\$19,891,110	\$31,994,182	\$41,441,746	\$63,223,545
Income (Loss) from Operations	(2,220,150)	1,112,284	(4,343,190)	2,350,083
Income (Loss) before Income Taxes	(2,413,782)	918,789	(4,622,000)	1,937,617
Income Tax Expense (Benefit)	(867,000)	367,000	(1,786,000)	760,000
Net Income (Loss)	(1,546,782)	551,789	(2,836,000)	1,177,617
Net Income (Loss) Per Basic Common Share	(\$0.56)	\$0.20	(\$1.04)	\$0.43
Weighted Average Number of Common Shares – Basic	2,738,989	2,712,373	2,738,972	2,708,881
Net Income (Loss) Per Diluted Common Share	(\$0.56)	\$0.20	(\$1.04)	\$0.43
Weighted Average Number of Common Shares – Diluted	2,738,989	2,743,614	2,738,972	2,736,659

Condensed Balance Sheets

	June 30, 2009 (Unaudited)	Dec. 31, 2008
Current Assets	\$33,503,290	\$37,191,982
Property and Other Long-term Assets	<u>10,017,188</u>	<u>11,249,110</u>
Total Assets	<u>\$43,520,478</u>	<u>\$48,441,092</u>
Current Liabilities	\$19,387,979	\$21,414,198
Long-Term Debt	4,514,084	4,608,869
Shareholders' Equity	<u>19,618,415</u>	<u>22,418,025</u>
Total Liabilities and Shareholders' Equity	<u>\$43,520,478</u>	<u>\$48,441,092</u>