



NORTECH SYSTEMS
ANNUAL REPORT
2008

COMPANY PROFILE

Nortech Systems Inc. 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 is traded on the NASDAQ Stock Market under the symbol NSYS and appears in most stock listings as "NorSys."

VISION

"To be the best"

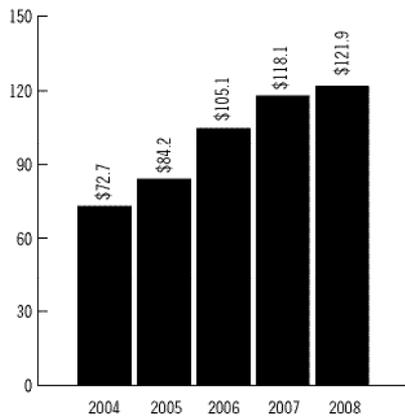
OUR PURPOSE

To be the preferred electronics manufacturing services provider that builds long-term relationships and creates value-added solutions for our customers.

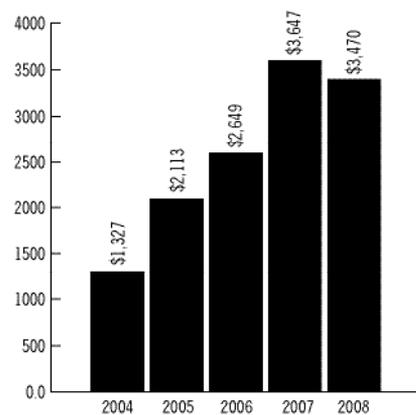
OUR VALUES

Respect
Customer-Focused
Committed to Success
Sense of Urgency
Great Communication
No One Does It Alone

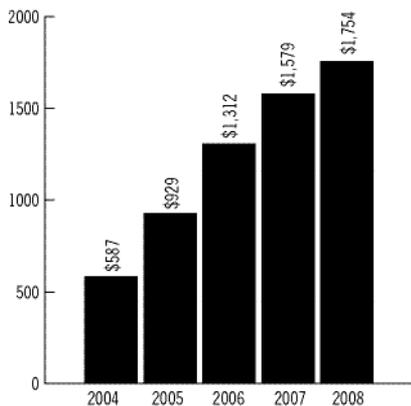
FINANCIAL HIGHLIGHTS



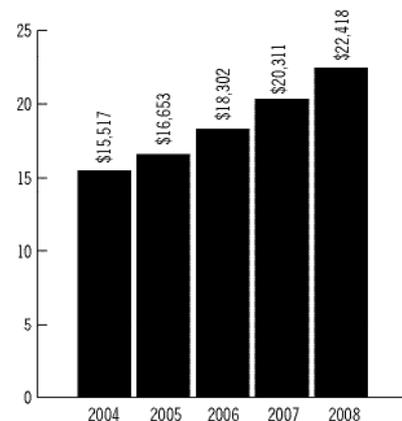
**REVENUE
(MILLIONS)**



**OPERATING INCOME
(THOUSANDS)**



**NET INCOME
(THOUSANDS)**



**EQUITY
(THOUSANDS)**



To Our Shareholders

"Difficulties mastered are opportunities won."

Those words of Winston Churchill ring especially true today. While our economy is facing unprecedented challenges, we believe Nortech Systems is positioned to emerge an even stronger company. The solid foundation we've built – our skilled people, world-class infrastructure and sound customer relationships – should continue to serve us well, even through tough times.

Year in Review

Looking back at 2008, it was a tale of two halves. The year started strong, with record-setting revenue levels in the first and second quarters. Although we faced pressures from high commodity and energy prices, we posted an 80 percent increase in six-month net income.

This was a continuation of the growth trajectory that earned us recognition as one of "America's 100 Fastest-Growing Small Public Companies" – as published in the July/August 2008 issue of Fortune Small Business. The ranking was based on three-year EPS growth, revenue growth and stock performance.

The second half of the year was significantly more difficult. Upheaval in the financial markets and the economic downturn softened demand from many of our customers, particularly in industrial markets. We reacted quickly by implementing cost-cutting and cost-avoidance initiatives to help offset anticipated revenue declines.

For the year, our overall sales growth was mixed, with growth in defense and medical cable and wire helping to offset the industrial softness. We posted record revenue of \$121.9 million, up 3.2 percent from 2007. Operating profits dipped 4.9 percent, to \$3.5 million. Net income increased 11 percent, to \$1.8 million, or \$0.64 per diluted share.

It's noteworthy that our 2008 operating profits and net income were both impacted by a \$337,000 increase in the reserve for doubtful accounts in the fourth quarter, for a past-due customer. Without this reserve adjustment, our operating profits would have increased 4.4 percent for the year and fiscal net income would have been \$0.07 higher, or \$0.71 per diluted common share.

We remained focused on maintaining our strong balance sheet and liquidity position. For fiscal 2008 our working capital increased \$1.0 million, or seven percent, and cash flow provided from operating activities was \$4.0 million. Shareholder equity was \$22.4 million, a 10 percent increase from 2007.

Fostering Continuous Improvement

Nortech's lean manufacturing initiative – called FOCUS – remains a galvanizing force for positive change within our people and operations. FOCUS makes us stronger and better able to withstand challenging times. This initiative was fully deployed at our Aerospace Systems facilities during 2007, and rolled out at all other U.S. locations last year. Engaging our employees more fully in our business and improving their work lives remain primary goals.

Our second annual FOCUS symposium in December 2008 highlighted progress across all Nortech's U.S. operations. Team presentations ran the spectrum from reducing time spent processing orders or kitting parts for production, to increasing inventory turns and on-time delivery performance.

More than 100 FOCUS projects were launched during 2008, raising the total above 140. Over one-third of Nortech employees have received some type of FOCUS training. Deployment at our Mexico facility began in the first quarter of 2009. With champions and teams in place, it's very exciting to see the groundswell of ideas and innovation springing forth. Hard-dollar savings are also increasing.

Strengthening Customer Relationships

Value, value, value. That's what Nortech Systems strives to deliver our customers every day. Led by efforts like FOCUS, we have a passion for excellence aimed at flawlessly executing all aspects of our business, as vital partners in our customers' success.

Our diverse, loyal customer base remains one of Nortech's key strengths – we serve industrial, defense and medical customers, primarily original equipment manufacturers (OEMs). Because of this diversity and loyalty, we've achieved record revenue levels the past six years.

To better target the high-growth medical market, our facilities in Merrifield and Baxter, Minnesota, achieved an important international quality certification last year. Based on the ISO 9001 international quality standard, ISO 13485 also corresponds to a comparable standard of the U.S. Food & Drug Administration.

Across our different facilities, we undergo joint FOCUS projects with customers to cooperatively share lean manufacturing expertise for mutual benefit.

Identifying Opportunities

Our company's solid growth history has been built on a foundation of organic growth and acquisitions. This twofold strategy will continue and we'll remain aggressive in the marketplace. During periods of economic uncertainty, we look to win business from financially troubled or weak competition and from OEMs who are outsourcing more to reduce costs and improve their working capital positions. We will also pursue synergistic acquisitions.

I'll close with more wisdom from Winston Churchill, whose inspirational leadership guided Britain to victory in World War II. He said, "*The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty.*"

Despite the challenging year on the horizon, I remain optimistic about Nortech Systems' future. My optimism is grounded in the unflagging efforts and enthusiasm I see from the dedicated men and women who work together at Nortech's facilities across the Upper Midwest and Mexico. I'm proud to lead them and our company forward, supported by you, my fellow shareholders.

Thanks for your faith in Nortech Systems – we'll continue working hard every day to earn it.

Sincerely,

A handwritten signature in black ink, appearing to read "mjdegen". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Michael J. Degen
President & Chief Executive Officer

CORPORATE INFORMATION

Registrar and Transfer Agent

Wells Fargo Shareowner Services

Mail: P.O. Box 64854
St. Paul, MN 55164-0854

Delivery: 161 North Concord Exchange
South St. Paul, MN 55075

Phone: (800) 468-9716 or (651) 450-4064

Fax: (651) 450-4033

E-mail: stocktransfer@wellsfargo.com

www.wellsfargo.com/shareownerservices

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Minneapolis, MN 55402

Directors and Officers

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MYRON KUNIN

Chairman & Director

Chairman & Chief Executive Officer (retired)

Regis Corporation, Edina, MN

KENNETH LARSON

Independent Director

President & Chief Operating Officer (retired)

Polaris Industries Inc., Medina, MN

RICHARD W. PERKINS

Independent Director

President & Chief Executive Officer

Perkins Capital Management, Inc., Wayzata, MN

C. TRENT RILEY

Independent Director

President, Riley, Dettmann & Kelsey, L.L.C.

Minnetonka, MN

RICHARD G. WASIELEWSKI

Senior Vice President & Chief Financial Officer

GARRY M. ANDERLY

Senior Vice President, Corporate Finance &

Treasurer

KEITH A. PIEPER

Senior Vice President, Aerospace Operations

PETER L. KUCERA

Senior Vice President, Quality & FOCUS Champion

DONALD E. HORNE

Vice President, Global Supply Chain
Management

CURTIS J. STEICHEN

Senior Vice President, Commercial Operations

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Nortech Systems' Headquarters

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Nortech Systems'

Manufacturing and Service Locations

COMMERCIAL WIRE PRODUCTS

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Bemidji, MN 56601

750 Industrial Drive

Augusta, WI 54722

Avenida E 541, Parque Industrial Martel

Apodaca, Nuevo León 66634 Mexico

Intercon 1

7746 Goedderz Road, Suite 110

Baxter, MN 56425

DEFENSE/AEROSPACE SYSTEMS

1930 West 1st Street

Blue Earth, MN 56013

1007 East 10th Street

Fairmont, MN 56031

ELECTRONIC ASSEMBLY

12136 Crystal Lake Road

Merrifield, MN 56465

7746 Goedderz Road, Suite 100

Baxter, MN 56425

325 North State Street

Garner, IA 50438

Operating Partner

Shenzhen, China

Annual Meeting

The annual meeting of shareholders will be held at 3:00 p.m. on June 10, 2009, at the Minneapolis Club, 729 Second Avenue South, Minneapolis, Minnesota.



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